Fund report, March 2022
Global Ethical High Yield
Fixed Income

Sparinvest

DECREASING RISK PREMIUMS

Geopolitical risk premiums were eliminated

Markets. Credit spreads tightened by 43 bps in the High Yield (HY) market in March, which did not offset the rising government interest rates, resulting in a negative return for the benchmark of 1.24%.

The military conflict between Russia and Ukraine continues to make its mark on the financial market. The initial phase of the conflict led to higher risk premiums until mid-March, after which risk premiums were generally eliminated in the second half of March. By and large, this process has so far followed the return patterns that have played out in previous military conflicts. Yields on US 5-year government bonds rose from 1.72% to 2.46% in March. The trend towards generally higher commodity prices continued in March. In the areas of industrial metals, agricultural products and energy, prices rose by 12%, 4% and 16%, respectively, according to the Bloomberg Commodity Index. There has been a general declining trend in terms of confidence indicators in the manufacturing industry in March. The loss of confidence has been greatest in Europe, followed by Asia. In the U.S., there was a slight positive development recorded in March.

At present, the conflict between Russia and Ukraine has not derailed central banks' plans for monetary tightening. The head of the US Federal Reserve (Fed), Jerome Powell, has recently confirmed that the institution will protect price stability. The Fed's rate hike of 25 basis points in mid-March coincided, paradoxically, with the central bank downgrading growth in the US from 4.0% to 2.8% and raising its core inflation forecast from 2.7% to 4.1% for 2022. For the Fed, the price development now has a higher priority than the growth development.

Negative return ahead of index

The Portfolio had a negative return of 0.47% for March, which was 0.77 percentage points ahead of the benchmark. Year to date the portfolio had a negative return of 3.64%, which was 2.13 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Materials and Real Estate, while Industrials contributed negatively relative to the benchmark. The positive contribution from Materials primarily came from the funds position in a Ukrainian steel producer that rebounded from the lows in February. The development in the Russian invasion of Ukraine continues to be crucial for the company, which has Investment Grade characteristics. News of negotiations, as well as Russia's decision to move troops away from Kyiv has improved sentiment in Ukrainian corporates and sovereign bonds. The positive contribution from Real Estate stems from the fund's underweight in Chinese real estate developers, which remained volatile amid a surge in Covid-19 cases in China and the prospects of extended lockdowns. Industrials' negative contribution was mainly attributed to an Ukrainian railway operator, where the effects of the war on the bond price were not fully reflected in February, leading to a further repricing during March.

In March, five positions were sold as they had reached their return potential and three positions were reduced. Proceeds were used to increase weights in existing positions as well as one curve extension, where the shorter maturity bond was reduced in favor of a longer maturity bond from the same issuer.

See performance and fund data Click here >

Strategy
Ethical High Yield Value Bonds invests in global corporate bonds, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings. At least 2/3 of the portfolio are invested in High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.