Fund report, March 2022
Global Short Dated High Yield EUR R
Fixed Income

Sparinvest

DECREASING RISK PREMIUMS

Geopolitical risk premiums were eliminated

Markets. Credit spreads tightened by 53 bps in the High Yield (HY) Short Dated market in March, which did not offset the rising government rates, resulting in a negative return for the benchmark of 1.37%.

The military conflict between Russia and Ukraine continued 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. Largely, this process has so far followed the return patterns that have played out in previous military conflicts. Yields on U.S. 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 slightly 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 U.S. 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 U.S. 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 benchmark

The Portfolio had a return of -0.28% for March, which was 1.09 percentage points ahead of the benchmark. Year to date the portfolio had a negative return of 3.30%, which was 1.84 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Materials and Financials, while Real Estate and Consumer Discretionary contributed negatively relative to the benchmark. The positive contribution from Materials primarily came from the funds position in an Ukrainian steel producer that rebounded from the lows in February. Negotiations and Russia's decision to move troops away from Kyiv improved sentiment in Ukrainian bonds. Within Financials, the positive contributions were broad based. The negative contribution from Real Estate came primarily from the funds positions in Chinese Real Estate developers, which had a tough month. Within Consumer Discretionary, the negative contribution came primarily from the funds position in a company that operates casinos and hotels in Cambodia. The company has been hit by corona restrictions and expect results to materially improve going forward as restrictions are lifted.

In March, five positions were sold as they had reached their return potential and four 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. The changes slightly increased the fund overall spread, which remains higher than the benchmark.

See performance and fund data Click here >

Strategy
Global Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.