Sparinvest

MOST ASSETS CLASSES PRESSURED

Risk and risk-free assets under pressure

Markets. March ended with a negative return for Emerging Markets (EM) government bonds of 6%. 10Y American interest rates increased by 60 bps and the credit spread increased by 40 bps and ended the month at 440 bps. Therefore, the combination of interest rates and credit spread was the primary driver of the negative return.

April was characterized by a mix of events and key figures, which affected financial markets. These were mainly related to matters of Russia/Ukraine, Corona/China and growth/inflation. Together, this put pressure on both risk and risk-free assets. Confidence indicators lost further ground as reflected in both business- and consumer-confidence indicators. The weakness has recently been more pronounced in Europe and China, while the United States has been relatively stronger. It is, of course, because the Russia/Ukraine conflict and the Covid crisis in particular are affecting Europe and Asia the hardest.

The conflict between Russia and Ukraine does not seem to be nearing an end and continues, among other things, to affect several parts of the commodity market. Within the field of energy, gas supplies from Russia to Europe have, so far, been exempted from sanctions. However, Russia has gradually stepped up sanctions - most recently with a decree on future settlement of gas in RUB rather than EUR or USD. The involvement of Russian gas in the geopolitical conflict brings energy closer to a destructive tail scenario. The conflict is also making its mark on the global food market, with countries in Asia and Latin America imposing restrictions on exports of certain agricultural products to protect security of local supply. More countries are likely to follow suit. The development will leave its mark either in the purchasing power of the end consumer or in the companies' earning capacity. The continuation of the war in Ukraine speaks for an extended period of loss of economic momentum, which started in mid-2021.

Ahead of benchmark

The Portfolio had a negative return of 5.9% in February, which was 0.1% better than the benchmark before costs.

The largest positive contributions to the absolute fund return came from our positions in Malaysia, Zambia and Uzbekistan. At the opposite end, Egypt, Mexico and the Indonesia made the largest negative contributions. The relative return was positively affected by underweights in Peru, Malaysia and South Africa. Overweights in Egypt, Romania and Ghana pulled in a negative direction.

In April, we reduced the overall risk of the fund by selling bonds from Dubai, Kenya, an Argentinian province along with a South African utility. Furthermore, we adjusted our positions in Egypt, Oman and Indonesia. Finally, we participated in a new issue from Angola.

See performance and fund data Click here >

Strategy

Value Bonds - Emerging Market Corporates primarily invests in Emerging Markets 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. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extend non-rated corporate bonds.