Fund report, April 2022
Global Ethical High Yield
Fixed Income

Sparinvest

MOST ASSET CLASSES PRESSURED

Risk and risk-free assets under pressure

Markets. Credit spreads widened by 39 bps in the High Yield (HY) market in April, which combined with rising government interest rates, resulted in a negative return for the benchmark of 3.45%.

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 been exempted from sanctions so far. 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.

Negative return ahead of benchmark

The Portfolio had a negative return of 1.85% for April, which was 1.61 percentage points ahead of the benchmark. Year to date the portfolio had a negative return of 5.42%, which was 3.60 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Communication Services and Energy, while Real Estate contributed marginally negatively relative to the benchmark. The positive contribution from Communications primarily came from the underweight towards the sector, which both has an above average duration and saw an above average spread widening during the month. In Energy, the positive contribution was broad based in a sector that continues to benefit from the high oil price. The negative contribution from Real Estate came primarily from the fund's position in a German real estate company, which is behind schedule to sell properties to reduce their debt, and made investors question the value of the properties.

In April, two bonds from U.S. shale gas producers were divested and two reduced as part of our fossil fuel policy. The proceeds were invested in two new issues as well as additions to existing positions. The changes increased the fund's overall credit spread marginally but did not change the duration, which respectively are higher and lower relative to the benchmark.

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.