Fund Report, April 2022
Global Investment Grade
Fixed Income

Sparinvest

HIGHER INTEREST RATES AND CREDIT SPREADS

Persistent inflation and high uncertainty

Markets. To rein inflation, central banks are tightening their monetary policy and with that also funding conditions. The Federal Reserve is expected to hike rates by 0.5% in May, and markets expect similar hikes to follow throughout the year and for the Fed to close 2022 with a key policy rate of 2.5%.

While the approach is more cautious, the ECB is also in the process of tightening monetary policy. Markets expect the ECB to hike rates by 0.8% in 2022 and to close the year with a key policy rate of 0.3%. The ECB is also expected to completely phase out its Asset Purchase Programme (APP) in Q3/2022, including its Corporate Sector Purchase Programme (CSPP). The latter has underpinned credit spreads, and with the ECB no longer among the buyers, market volatility is likely to increase going forward.

The 10Y US government bond yield rose by 0.6% to 2.93% in April, whereas the German government bond yield rose by 0.39 to 0.94%.

There are still many uncertainties linked to the conflict between Russia and Ukraine, which does not seem to be approaching its end. Gas deliveries from Russia to Europe have so far been excluded from sanctions, and the tail scenario for the European economy has not materialised. But Russia has gradually escalated sanctions – most recently by demanding payment for gas in RUB going forward, and not in EUR or USD. The Russian gas company Gazprom has announced that it will suspend its gas deliveries to Poland and Bulgaria, citing the two counties' refusal to pay in RUB. These measures are yet another step towards including Russian gas in the geopolitical conflict, which will bring the development in the energy area closer to a destructive tail scenario.

The conflict has also left its mark on the global food market, and countries in Asia and Latin America have introduced export restrictions on certain agricultural products to protect security of supply. More countries are likely to follow suit. Generally, this leaves a larger bill to be footed. This development will feed through to end-customers' purchasing power or the corporate sector's earnings capacity.

With a military stalemate in Ukraine, it could take some time before the conflict reaches its conclusion, which means that we could be looking into yet another period of prolonged and more pronounced economic slowdown – a slowdown that began in mid-2021.

Higher interest rates and credit spreads yielded a negative return

The portfolio yielded a negative return in April. As in Q1, the absolute return was driven by higher interest rates and credit spreads. After a positive March, credit spreads again reached their peak for the year in April, driven by higher uncertainty. Credit spreads of high credit-rated companies were top performers. Continued higher interest rates meant that short-dated bonds generated the highest returns. Capital securities benefited from reduced interest rate sensitivity and outperformed the general credit market.

The portfolio is generally underweight risk, and this positioning has been the primary driver of the excess return in April. The portfolio was overweight companies with an AAA credit rating, and while having performed well, credit spreads of AAA rated bonds typically have higher interest rate sensitivity. In April, this positioning contributed negatively to the excess return. The overweight in capital securities contributed positively to the return. In March, we increased the portfolio duration to come closer to benchmark, whilst maintaining the low level of credit risk.

See performance and fund data Click here >

Strategy

Global Investment Grade 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 Investment Grade bonds.