Sparinvest

SHARP TURN IN RISK APPETITE

Weak start was replaced by strong finish

Markets. May ended with a negative return for Emerging Markets (EM) government bonds of 0.1%. 10Y American interest rates decreased by 16 bps and the credit spread increased by 8 bps and ended the month at 448 bps. Therefore, the combination of interest rates and credit spread delivered two opposite effects, as result total return ended up marginally negative.

From a risk perspective, May was divided in two periods. Risk aversion dominated at the beginning of the month, when the benchmark was down by almost 3%, but was replaced by risk appetite towards the end of the month. This development should be seen in the context of the large increases in short-term U.S. government interest rates that began to subside during May - which was interpreted as a signal of a possible peak in the Fed's (U.S. Federal Reserve) forthcoming monetary policy tightening.

Indicators suggested that the declining growth momentum would continue towards the summer. The business confidence indicators collected in the manufacturing industry in the OECD area showed a continuing declining trend in order intake. On the other hand, indicators in China were rising in the wake of the reopening. The economic slowdown phase has coincided with short-term U.S. government bonds - the financial market's most important asset class, finding a market-based interest rate level, after the phasing out of the corona crisis' monetary policy insurance schemes. In just four months, an interest rate increase of 2.5 percentage points has been priced in, which in comparison took 24 months over the period end-2016 to end-2018. Such a large adjustment of the interest rate level has consequences for the pricing of all other asset classes. This development in the rates markets have been the primary driver to the weak year-to-date returns for the asset class.

Weak relative return

The Portfolio had a negative return of 0.6% in May, which was 0.5% worse than the benchmark before costs. The declining growth momentum hit the high yield segment the most, which caused the fund to underperform.

The largest positive contributions to the absolute fund return came from our positions in Ukraine, Colombia and Egypt. At the opposite end, Ghana, Kazakhstan and Nigeria made the largest negative contributions. The relative return was positively affected by overweight in Ukraine underweights in Pakistan and Turkey. Overweights in Ghana, Kazakhstan and Nigeria pulled in a negative direction.

In May, we adjusted our exposure in Bahrain, participated in a new issue from Romania and added a bit of Tunisia. During the month, we sold our bonds in a few utilities and a mining company following their inclusions to the Nykredit exclusion list.

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.