Fund report, May 2022
Global Ethical High Yield
Fixed Income

Sparinvest

SHARP TURN IN RISK APPETITE

Weak start replaced by strong finish

Markets. Credit spreads widened by 15 basis points in the High Yield (HY) market in May. Interest accruals could not offset the negative price development, which led to the benchmark index delivering a return of -0.48% while the year-to-date return landed at -9.46%

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 suggest that the declining growth momentum will continue towards the summer. The business confidence indicators collected in the manufacturing industry in the OECD area show a continuing declining trend in order intake. On the other hand, indicators in China are rising in the wake of the reopening. Global industrial production is still strongly adversely affected by issues with sourcing the sufficient amount of sub-components in combination with bottlenecks in the transport of these sub-components. 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.

Negative return behind the benchmark

The Portfolio had a negative return of 0.99% for May, which was 0.51 percentage points behind the benchmark. Year to date the portfolio had a negative return of 6.36%, which was 3.10 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Communication Services, while Materials and Health Care contributed negatively relative to the benchmark. The positive contribution from Consumer Services was broad-based. In Healthcare, the contribution came primarily from two U.S. pharmaceutical companies. One of these companies made a major downgrade in expected earnings due to higher than expected competition after the loss of a product's exclusivity. The negative contribution from Materials came from the fund's positions in some gold mining companies, which did not recover at the end of the month due to the weaker gold price.

May was an active month. The last two bonds of U.S. shale gas producers were divested as part of our fossil fuel policy. The proceeds were invested in two new issues as well as nine new positions across sectors, in new and previously known companies, which had higher duration. The changes increased the fund's overall credit spread marginally, and reduced the underweight in duration.

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.