Sparinvest

THE ECB LAGGED BEHIND

High inflation in Europe put pressure on the ECB

Markets. The central banks are currently tightening monetary policy, but while the U.S. central bank (the Fed) has already raised the interest rate by 0.75%, the European Central Bank has still to raise interest rates for the first time this year.
The annual inflation in Europe continued increasing to 8.1% from 7.5%, while U.S. inflation for the first time this year was down to 8.3% from 8.5%. The Fed softened its rhetoric in May and as a result, market expectations for the Fed's key policy rate stabilised around 2.8% at end-2022. On the other side of the Atlantic, the situation is completely different. In May, investors expected the ECB to raise the interest rate by 0.8% in 2022 to 1.2%, thus ending the year with a key policy rate of 0.7%.

The ECB is expected to phase out their purchases of corporate bonds (under the CSPP) in early July. The CSPP has underpinned credit spreads, and with the ECB no longer among the buyers, market volatility is likely to increase and exert pressure on credit spreads. In May the primary market remained well-functioning for Investment Grade, albeit with rising premiums to investors for participating in new issuances, but with the ECB no longer among the buyers, the impact on the market remains uncertain.
The 10Y U.S. government bond yield fell by 0.09% to 2.84% in May, whereas the German government bond yield rose by 0.18 to 1.12%.
Growth prospects in H2/2022 are muddled by the global industrial production, which is still extremely adversely impacted by problems with obtaining a sufficient amount of sub-components combined with bottlenecks in the transportation of such sub-components. Measured in terms of the so-called "supply chain pressure index" published by the NY Fed, the current situation does not suggest any notable signs of improvements to the global supply chains in the past 12 months. However, the ongoing gradual phasing-out of corona restrictions in China is expected to improve supply chains in the coming months. But as this is a global problem, normalisation in this area is likely to span over an extended period of time. If so, inflation-related data may peak during the summer, and the rate of increase could also stay at high levels for yet another period until supply chain bottlenecks are finally eliminated.

Large fluctuations in yields and credit spreads

The portfolio yielded a negative return in May**.** As in the preceding months of the year, May was marked by large fluctuations. Risk aversion dominated at the beginning of the month but was replaced by risk appetite at the end of the month.
Interest rates and credit spreads have fluctuated back and forth during the month. For the U.S., interest rates and credit spreads were almost unchanged compared with the beginning of the month, while both interest rates and spreads widened in Europe. Credit spreads of top credit-rated companies were top performers.
As described above, Europe underperformed the U.S. and the portfolio's overweight vs Europe contributed negatively to the excess return this month. The underweight vs energy also contributed negatively to the return. The portfolio has a defensive positioning with lower credit spreads, and this again contributed to the excess return.
In May, we increased the portfolio duration to come closer to benchmark, whilst maintaining the low level of credit risk.

See returns and key figures Click

Strategy
Virksomhedsobligationer IG KL investerer i globale virksomhedsobligationer, jf. det gældende prospekt. Obligationerne udvælges efter value-principperne, hvilket vil sige, at der fokuseres på selskaber med sund langsigtet indtjeningsevne, stærk balance samt evne til at servicere den udestående gæld. Der foretages en forsvarlig spredning på tværs af regioner, sektorer og ratings. Renterisikoen afdækkes ned til tre år, og porteføljen er dermed mindre følsom over for renteændringer end det generelle marked.