Sparinvest

INFLATION AND RISING GROWTH FEARS

Continued high inflation overshadowed by growth fears

Markets. Inflation stayed high in June, once again triggering big swings in the fixed income market. The Federal Reserve hiked the interest rate by 0.75% at its meeting in June, despite market expectations of only 0.50% just a few days before the meeting. The market expects the Federal Reserve to raise the rate by another 1.75% in 2022, followed by a halt in 2023 or maybe even a reduction again already in early 2023.

The European Central Bank (ECB) kept its key policy rate unchanged at its meeting in June as expected, but indicated a 0.25% and a 0.50% hike at its meetings in July and September, respectively. At the June meeting, the ECB decided to finally discontinue its purchases of corporate bonds (CSPP) by the end of June. The CSPP has underpinned credit spreads, and with the ECB no longer among the buyers, market volatility is likely to increase going forward.

The 10Y U.S. government bond yield rose by 0.17% to 3.01%, while the German government bond yield rose by 0.21% to 1.33% in June, both swinging widely, hitting highs of 3.47% and 1.77%, respectively, in mid-June.

H1/2022 was dominated by inflation fears, but these were overshadowed by growth fears at end-June. Growth fears put risky assets under strong pressure, widening credit spreads. Economic indicators bear witness to a significant loss of growth momentum in the OECD area in June. This is evident from the order components in recently published business confidence indicators. According to data from S&P Global, order indices of the U.S., the EU and Japan fell below index 50 in June. This development was subsequently confirmed by ISM data from the U.S. Growth and global supply chains have been affected by corona restrictions in China in Q2, but China is easing its corona restrictions, which may help brighten the future growth outlook.
Credit spreads rose by 55bp and 31bp, respectively, for European and U.S. IG bonds in June.

Higher interest rates and credit spreads yielded a negative return

The portfolio yielded a negative return in June, driven by higher credit premiums, which were amplified by higher interest rates.
Growth fears dominated the market towards the end of the month, and credit spreads widened strongly. In a market climate with elevated risk aversion, the top performers were mainly corporates with the highest credit ratings. Within the corporate capital structure, the most secure bonds, senior bonds, were also outperformers. Continued rising interest rates meant that short-dated bonds generated the highest returns.
The portfolio has been positioned with overweight in credit spreads and underweight in yield risk.

The overweight in credit spreads was the main driver of the negative return relative to benchmark in June. The portfolio's overweight against AAA and AA bonds made a positive contribution to the return. The overweight in capital securities contributed negatively to the relative return.

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.