Sparinvest

DOMINATING RISK AVERSION

Inflation fears replaced by growth fears

Markets. Credit spreads widened by 166 bps in the High Yield (HY) Short Dated market in June. Interest accruals could not offset the negative price development, which led to the benchmark index delivering a return of -5.38%, while the year-to-date return landed at -12.61%.

The financial market shifted focus during June. At the beginning of the month, the fear of inflation dominated, but towards the end of month, growth fears took over. The fear of lower growth put significant pressure on risky assets and the High Yield market was no exception, as lower growth (perhaps even a recession) will likely lead to higher bankruptcy rates. Growth fears also resulted in declining commodity prices in June, where for example, the price of iron ore fell by 13% and the price of oil fell by 6%.

Key indicators point to a significant loss of growth momentum in the OECD area during June. This can be seen in the order components of the recently published business confidence indicators. For the U.S., the EU and Japan, the order index fell to a low level in June. This development was subsequently confirmed by ISM data from the U.S., where the order component also de-creased. The widespread vacuum in the order intake coincides with signs of stock build-up. The balance between the order index and the stock index is at the lowest since November 2001 - disregarding the extraordinary major shocks associated with the financial crisis and the corona crisis. Overall, the development has brought the CLI indicator for the OECD area into a downturn phase.

However, it should be emphasized that China is currently experiencing a renewed growth momentum. The development is mainly due to less restrictive Corona restrictions in China, where partial shutdowns in Shanghai, Shenzhen and Beijing are being phased out.

Negative return ahead of the benchmark

The Portfolio had a negative return of 4.85% in June, which was 0.53 percentage points ahead of the benchmark. Year to date the portfolio had a negative return of 9.83%, which was 2.78 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Energy and Industrials, while Materials and Financials contributed negatively relative to the benchmark. The positive contribution from both Energy and Industrials came primarily from the fund's underweight in several large issuers that had a tough month. One of the fund's major energy positions announced the intention to call its bond, which ensured a strong relative performance. The negative contribution from Financials was broad-based, but especially the fund's position in an American student loan provider contributed negatively. In Materials, the negative contribution also came from several positions, but one Indian mining company in particular stood out, led by the negative development in commodity prices in June.
June was an active month. One bond was partially called and we reduced the weight in several positions, which have reached their return potential. Proceeds were invested in eight new issues and one new name. The changes increased the fund's overall credit spread marginally.

See performance and fund data Click here >

Strategy
Global Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.

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