Sparinvest

HIGH VOLATILITY

Losses across markets

Markets. Another quarter with high volatility and losses on most markets due to high inflation, rising interest rates and not least to the uncertainties surrounding the impacts of Centralbank policies.

Looking at market returns without currency risk, global stocks (ETF IWDE) fell -16.1% in eurohedged terms. Defensive sectors outperformed cyclical sectors and Value outperformed Growth companies.

Interest rates rose and credit spread widened leaving Global High Yield (HW00) with a -10.6% loss while Global Investment Grade (G0BC) fell -7.1%.

The global benchmark for convertible bonds represented by the balanced Refinitiv Global Focus Index fell -12.6% while the convertible universe represented by Refinitiv Global Vanilla Index fell -13.6%.

Good starting point

The Portfolio returned -9.60% and -9.84%, gross and net of fees, in the second quarter. The benchmark and Morningstar category of comparable global convertible funds returned -12.60% and -11.44%, respectively. Our focus on value in various forms (underlying equities, credit and options) was rewarded again, and we can see that our outperformance was driven by selection in almost every sector.

Due to high inflation and rising rates we have had another quarter with losses to both underlying stocks and bond elements of the convertible bonds in the portfolio. The underlying stocks of the portfolio fell around -17% (eurohedged) while underlying stocks for the benchmark fell around -22%. Our delta, or equity sensitivity, is around 0.3, which means that the decline in the underlying stocks contributed to the portfolio return with roughly -5.1%-points for the quarter. The remaining -4.5%-points is primarily due to changes in credit spread and interest rates.

Due to declining markets we are now in a situation where the weighted price of the bonds in the portfolio is below 100, actually around 95. This means that we have a positive yield to maturity of a couple percentage points should all bonds mature at 100. We are therefore expecting positive returns when we look 3-4 years ahead, even if we get no contribution at all from the underlying stocks. It is rare that the convertible bond universe is found at these levels and it has historically boded well for future returns. Default rates for convertible bonds have historically been low and we also expect very low default rates for our portfolio given our focus on strong balance sheets, even if we face difficult times ahead.

The implicit credit spread for the portfolio is around 590 bps which seems attractive given the weighted rating of BBB-. Distance to bondfloor is roughly 10%. All in all a good starting point for future return and risk.

See performance and fund data Click here >

Strategy

Sparinvest Global Convertible Bonds is a well-diversified global fund of convertible corporate bonds. Convertible corporate bonds are an asset class in the intersection between stocks and bonds that give some exposure to the stock market with a significantly lower risk than direct investment in the stock market. The strategy utilizes long-term factor premiums such as value, low debt and small cap. These are investment styles that, with certain fluctuations along the way, have historically delivered a long-term excess return compared to investments in the entire market.