Sparinvest

RATES AND SPREADS DECLINED

High returns on both risky and non-risky assets

Markets. July ended with a positive return for Emerging Markets (EM) government bonds of 2.8%. 10Y American interest rates decreased by 35 bps and the credit spread also decreased by 10 bps, which combined resulted in the positive total return for the month.

There were high returns on virtually all financial asset classes in July. The development occurred in the wake of interest rate declines in the U.S. and Europe, which started in mid-June and continued in July. In the financial market, this development was probably perceived as a reverse interest rate shock, which could slightly ease the otherwise tightening financial environment, which has been dominating in 2022.

Most of the leading indicators in the U.S. and Europe showed large declines in July. The declines were not only related to the manufacturing industry, but also included developments within the service sector. The reports also indicated that the ratio between order intake and inventory build-up further deteriorated in July. It thus underpins the message from several companies, which report increasing inventories/stock as a result of canceled orders. In China, the trend is the same. The latest data from the household sector indicate that consumer demand has decreased sharply in a short time. This indicates that higher prices on goods now seem to affect consumer behavior. In recent weeks, the financial market has begun to discount lower policy rates from the Fed (Federal Reserve) from mid-2023. The dominant market expectation is now a rapid change in behavior from the Fed, with the current tightening cycle slipping directly into an easing cycle.

In country specific news, we saw Ghana reverse its policy towards the IMF and approach the fund on a potential financing facility. Growing imbalances within their economy was cause of change in their stance towards the fund, which should be positive for bond prices going forward. Tunisians went to the polls and approved a new constitution. However, a low turnout rate questions the legitimacy of the vote, as key opposition parties boycotted the vote. Finally, South Africa agreed to transfer debt from the state owned utility Eskom on to the sovereign balance sheet.

Weak relative return

The Portfolio had a return of 2% in July, which was 0.8% worse than the benchmark before costs. The decreasing interest rates benefitted the IG segment more than the high yield segment the most, which caused the fund to underperform.
The largest positive contributions to the absolute fund return came from our positions in the Dominican Republic, Mexico and Colombia. At the opposite end, Ukraine, Ghana and Egypt made the largest negative contributions. The relative return was positively affected by overweights in Dominican Republic, Colombia and El Salvador. Overweight in Ukraine and underweights in Brazil and Peru pulled in a negative direction. El Salvador announced that they would pursue early buy backs of their 23 and 25 bonds, which was very well received by the market, as a sign of willingness to pay.
In July, we sold our position in India's export and import bank, reduced our Bahrain exposure and our position in a South African railway company matured. Finally, we adjusted our curve exposure in South Africa.

See performance and fund data Click here >

Strategy
Value Bonds - Emerging Market Corporates primarily invests in Emerging Markets 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. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extend non-rated corporate bonds.