Sparinvest

RATES AND SPREADS DECLINED

Inflation fears replaced by growth fears

Markets. Credit spreads tightened by 81 bps in the High Yield (HY) Short Dated market in July. The positive price development was the main reason why the benchmark index delivered a return of 3.26%, and the year-to-date return was -9.76%.

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. The combination of falling interest rates and credit spreads resulted in the BB category performing better than the B category, which in turn did significantly better than the CCC category. This is, among other things, due to the longer duration in the higher rating-categories. Within regions, Emerging Markets significantly lagged developed regions.

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 because 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.

Positive return but behind the benchmark

The Portfolio delivered a positive return of 1.71% in July, which was 1.55 percentage points behind the benchmark. Year to date the portfolio had a negative return of 8.28%, which was 1.48 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Health Care, while Consumer Discretionary and Industrials contributed negatively. The positive contribution from both Financials and Health Care came primarily from the fund's overweight in these sectors. The negative contribution in Consumer Discretionary and Industrials came from the underweight in these sectors with higher than average duration, which has benefited the fund year-to-date. Furthermore, the fund lost relatively due to the strategy's "size" tilt, as smaller positions typically do not move as quickly during large market movements as the larger liquid positions in the benchmark.
In July, several short duration positions were reduced and sold across sectors to make room for longer duration positions with higher spreads. 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.