Fund report, September 2022
Emerging Markets Bonds
Fixed Income

Sparinvest

BROAD BASED LOSSES

Economic growth weakening

Markets. September ended with a negative return for Emerging Markets (EM) government bonds of 6.8 %. 10Y American interest rates increased by 64 bps and the credit spread also increased by 59 bps from 500 bps to 559 bps. Therefore, the combination of increasing interest rates and credit spreads resulted in the negative monthly return.

September was characterized by broad-based losses on financial assets across risk-free and risky assets. The first signs of systemic stress in the financial market also characterized the month. At the end of September, the BoE (Bank of England) had to intervene in the financial market because of the large market reactions in connection with the publication of the so-called mini-budget, which is a precursor to the Finance Act. In a few days, the yield on 30-year UK government bonds rose by 1.5%-points and the GBP fell by approx. 10% against the USD. Until Oct 14, the BoE will buy up long-term government bonds to an 'unlimited' extent with a view to stabilize the pricing of financial assets in the UK.

Growth related indicators continue to develop negatively in Europe, with an exceptionally weak development in Germany. The index for IFO Expectations fell further in September from 80.3 to 75.2. The index is now lower than the lowest level during the financial crisis, when the index reached a low of 79.2 in December 2008. The same applies to European consumer confidence, which fell from -26.4 to -29.9 in September. During the financial crisis, consumer confidence index in Europe reached a bottom of -20.7 in March 2009. In the U.S., the figures were more mixed. The trend continued to be downward in business confidence indicators, while there are minor increases in confidence indicators on the consumer side, among other things in the wake of falling U.S. gasoline prices.

In country specific news, we saw events related to climate change affect specific countries. Pakistan experienced a record flooding displacing more than 33m people and flooding large areas of agricultural land. The flooding will have a major impact on the existing distressed state of the economy. In Zambia, the IMF stated a larger need for debt reduction than the market was expecting.

Ahead of benchmark

The Portfolio had a return of -6.6 % in August, which was 0.2% better than the benchmark before costs. The increasing interest rates hit the IG segment more than the HY segment the most, which caused the fund to perform, as it is overweight HY against IG.
The largest positive contributions to the absolute fund return came from our positions in Kazakhstan, El Salvador and Uzbekistan. At the opposite end, Egypt, Mexico and the United Arab Emirates made the largest negative contributions. The relative return was positively affected by and overweight in Kazakhstan and underweights in Pakistan and Malaysia. Overweight in Egypt, Mongolia and Romania pulled in a negative direction.
In September, we reduced our Dominican Republic, Gabon, Trinidad, Kenya, Guatemala, Uruguay and Morocco exposure. Finally, we adjusted our exposure in Ivory Coast, Nigeria, Brazil and Oman and we added in Panama, Romania and Zambia.

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.

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