Fund report, November 2022
Global Investment Grade
Fixed Income

Sparinvest

HIGH HOPES

Christmas is drawing near

Markets In recent quarters, economies and financial markets have been in the process of shifting to a contractive economic policy in order to curb demand and slow down growth. Growth has so far slowed down at a moderate pace. There are incipient signs of a slowdown in the job markets and housing markets in the OECD area, but impacts remain limited. This has given rise to exceptionally volatile return patterns, both for risk and risk-free assets, reflected in high-frequency fluctuations between risk aversion and risk appetite. This is characteristic of a time of crisis.

In the credit market, the dominant theme in November was the strong credit market development and resultant tightening of credit spreads. This came as a surprise to many investors, who have, naturally, questioned its sustainability. One explanation to the spread tightening is strong demand from insurance companies, pension funds and asset managers. The high yields-to-maturity are good for insurance companies with absolute return requirements, and some pension companies now have scope for longer-dated fixed-income bonds and corporate bonds. Over the last month, asset managers have seen large investment inflows.

Conversely, the high short-term interest rates enable investors to make short-dated placements in bonds or bank deposits with high returns and low risk.

The positive sentiment in relation to the development in spreads, combined with the presentation of 9-month financial statements by many companies, had a knock-on effect on the market for new issues. Hence, November saw high activity, including among companies with BBB credit ratings. For 2022 overall, the share of companies with a BBB rating has been low. In 2022, 44% of issues have been rated BBB, compared with just under 60% in 2021. Over the last seven years, the share has been between 44% and 58%. Renewed optimism meant that the premiums for issuance of senior bonds fell by 20-25bp.

Demand for credit, measured by the inflow into credit funds, reversed in November. Following a year with continuous outflows, sizeable inflows were seen in November for both Investment Grade and High Yield. Combined with the ECB's reinvestment of coupons and redemption of bonds, this was a strong supporting factor.

Returns continued to be positive

The portfolio yielded positive returns in November. The tighter credit spreads and lower interest rates seen in the market boosted returns.

In a positive market, the top performers were the lowest rated companies. Within corporate capital structures, capital securities yielded the highest returns. The lower interest rates meant that bonds with maturities exceeding 5Y delivered the highest returns.

Looking into 2023, we see a credit market with higher loan rates for companies and with that higher yields-to-maturity for investors. This development has been very rapid, and at the same time large parts of the credit market have expanded synchronously, creating a series of attractive, relative investment opportunities along with the possibility of obtaining a decent positive return. Having said that, changes in interest rates will still directional to absolute returns. Our approach is to be prudent when taking risk.

See performance and fund data Click here >

Strategy
Invests in global 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. At least 2/3 of the portfolio are invested in Investment Grade bonds.

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