

A GOOD MONTH FOR CREDIT

Good returns across the risk spectra

Markets. Credit spreads tightened by 48 bps in the High Yield (HY) Short Dated market in November. The tighter spreads combined with accrued interest and lower government bond rates, resulted in the benchmark delivering a return of -2.9%, bringing the year-to-date return to -10.1%.

There were high returns in virtually all asset classes in November. Part of the explanation can be attributed to consumer prices in the U.S. and Europe, which in certain areas began to show lower annual rates of increase. In November, the interest rate on Danish and U.S. 10-year government bonds fell from 2.5% to 2.1% and 4.1% to 3.6% respectively.

The low confidence indicators in Europe showed slight increases in November. This applied to both business and consumer confidence. The development comes in the wake of sharply falling energy prices since late summer. At the start of November, gas and electricity prices reached levels that were more than 90% lower than the August peak. However, this has changed in recent weeks, as the prices of the mentioned energy sources have increased by over 400%. In the U.S., relatively large declines in business confidence occurred in both the manufacturing and service sectors. The so-called PMIs are at index 47.6 and 46.1 (S&P Global). The Chinese data is again heavily influenced by another large outbreak of the Coronavirus. During November, the development led to extensive shutdowns in central parts of the country, including Beijing and Shanghai. The PMI index is in the range of 46.5 to 49.5 across the manufacturing and service sectors. It is to be expected that the latest developments in China will affect global supply chains for a period.

Positive return but behind of benchmark

The Portfolio delivered a positive return of 2.70% in November, which was 0.23 percentage points behind of the benchmark. Year to date the portfolio had a negative return of 7.3%, which was 2.9 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Materials and Consumer Discretionary, while real Estate and Industrials contributed most negative. The positive contribution from Materials came primarily from a Ukrainian mining company, which rebounded some after losing a large part of its value earlier in the year because of the Russian invasion of Ukraine. The company delivered a better-than-feared result and Russia's weakened position gives hope that the company can improve further. Within Consumer Discretionary, the positive contribution was broad based. The negative contribution from Real Estate came primarily from the fund's continued underweight to Chinese property developers, who for once had a very positive month after President Xi Jinping approved a rescue plan for a hard-hit property market. Within Industry, the negative contribution came from the fund's underweight to the sector despite positive selection.

In November, one position was sold to make room for a new issue. Further, there was one curve extension, where the shorter maturity bond was sold in favor of a longer maturity bond from the same issuer. The changes increased the fund's overall credit spread and duration marginally.

See performance and fund data

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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.

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