Fund report, Q4 2022
Global Convertible Bonds
Bonds

Sparinvest

# GROWING OPTIMISM

## Has inflation finally peaked?

**Markets.** The early signs of a peaked inflation have set a positive tone in the markets and some sort of normalization of interest rates is expected to move closer. In euro-hedged terms, MSCI World delivered 6.81% in the fourth quarter while the credit market delivered 2.26% and 4.33% for IG and HY respectively.

## God starting point gave high expectations

**The Portfolio** returned 2.25% and 1.97%, gross and net of fees, in the fourth quarter. The benchmark and Morningstar category of comparable global convertible funds returned 3.22% and 1.86%, respectively.

2023 ended with a return of -15.15% and -16.06, gross and net of fees, while the benchmark and Morningstar category returned -17.84 and -17.31 respectively. For comparison, MSCI World returned -17.86 in euro-hedged terms and global credit returned -16.24% and -13.60% for IG and HY.
All share classes ended the year on a similar note, primarily due to the sharp rise in interest rates that hit the market broadly. When all return drivers for the convertible bonds were negative (interest rates, credit spread and underlying stocks) it was an extraordinarily difficult year for convertible bonds. We received a minor positive contribution from rising volatility since the embedded options increase in value with higher volatility.

The underlying stocks in the convertible bond universe were hit particularly hard due to the bias towards small cap and growth companies. Especially growth companies had a tough year, which can also be seen in the U.S. if one compares Dow Jones, S&P 500 and Nasdaq 100.

Expectations for future performance are now high. The financial markets can go in many directions, which is also one of the advantages for convertible bonds. No one knows what the future brings and that is why convertible bonds are so attractive because they perform at their very best, relatively speaking, when markets are extreme, either positive or negative. Normally, convertible bonds does not have an advantage in the quiet markets, but they will perform similar to the market.

If 2023 turn out to be the year when inflation turns around, perhaps even drops drastically in the spring, rates might stabilize or even come down a little which might be positive for the stock market, as long as the economy keeps a positive momentum. Expectations are that the underlying stocks in the convertible bond space will outperform the general stock market due to higher beta from small cap and maybe some extra tailwind from growth companies. Furthermore, a lower interest rate and tightening spread will contribute even further to the return in the coming year. Some major U.S. banks have high expectations for convertible bonds the coming year. Should the market turn differently, for example a deep recession, then the convertible bond market stands at a preferable place with a low equity sensitivity and an above average level of bond like securities trading close to the bond floor.

Equity sensitivity stands at 33% for our portfolio, which is below historical average. Weighted bond price is 95, which gives us an YTM of around 2.5%.

Our implied spread is 500 bps with a weighted rating of BB+ and 3.5 years to maturity, which is very attractive priced compared to the general credit market.

See performance and fund data  Click here >

**Strategy**
Sparinvest Global Convertible Bonds is a well-diversified global fund of convertible corporate bonds. Convertible corporate bonds are an asset class in the intersection between stocks and bonds that give some exposure to the stock market with a significantly lower risk than direct investment in the stock market. The strategy utilizes long-term factor premiums such as value, low debt and small cap. These are investment styles that, with certain fluctuations along the way, have historically delivered a long-term excess return compared to investments in the entire market.