

SHIFTING MARKET DYNAMICS

Positive returns driven by July tightening

Markets. Credit spreads tightened by 20 basis points in the High Yield market in Q3. Accrued interest and spread tightening more than made up for the negative impact of higher government bond interest rates. The benchmark thus delivered a return of 0.40% for the quarter, bringing the year to date return up to 3.99%.

Throughout the third quarter, the High Yield market saw fluctuations in credit spreads, reflecting shifts in risk sentiment. Investor optimism prevailed early, resulting in gains for high-risk assets. Notably, sentiment indices reached record levels, though leading indicators indicated a waning economic momentum. Business confidence showed a decline in the U.S., UK, and Europe over two or three consecutive months, with service sectors bearing the brunt of the economic impact.

China's monetary policy differed from the synchronous tightening observed in OECD countries, with the latest data suggesting potential economic momentum loss. Inflation patterns primarily correlated with changes in cyclical components, while core inflation persistently surpassed central bank targets, stabilizing in the U.S. and Europe but surging to almost 7% in the UK.

The quarter featured oscillations between high-risk assets and diminishing economic optimism, with declining economic momentum and sticky core inflation levels emerging as central, consistent themes.

Positive fund return ahead of benchmark

The Portfolio delivered a positive return of 1.42% in Q3, which was 1.02 percentage points ahead of the benchmark. Year to date the fund has returned 5.64%, which was 1.65 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Industrials, while Communications and Consumer Discretionary contributed most negative. The positive contribution from Financials primarily from the overweight towards debt collectors, which had a good quarter on the back of a tough Q2. Within Industrials, the positive contribution primarily came from the position in a global logistics company, which came with good quarterly results resulting in an increase in the bond price. The negative contribution from Communications was primarily due to the fund's underweight to the sector, despite selection contributing positively. Within Consumer Discretionary, the small negative contribution from a combination of poor selection and the fund's underweight to the sector.

In Q3, thirteen positions were either sold or called. The proceeds were invested in five new issues and seven new bonds, some of which were a longer version of the one sold. The changes increased the fund's overall duration and weights in Industrials and Materials, while reducing the weight in Energy. The fund enters the last quarter with a higher credit spread and lower duration than the benchmark.

See performance and fund data

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Strategy

Ethical High Yield Value Bonds 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 High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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