

SHIFTING MARKET DYNAMICS

Positive returns driven by July tightening

Markets Credit spreads tightened by 7 bps in the High Yield Short Dated 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 0.73% for the quarter, bringing the year to date return up to 3.98%.

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 1.79% in Q3, which was 1.06 percentage points ahead of the benchmark. Year to date the fund has returned 5.77%, which was 1.79 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Materials, while Communications and Real Estate 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 Materials, the positive contribution primarily came from the position in a stressed Indian mining company, which sold some asset and found refinancing sources resulting in a handsome bond price increase the negative contribution from Real Estate was primarily due to poor selection and a reversal of previous quarter positive contribution. Within Communication, the small negative contribution came from the fund's underweight to the sector as the selection contributed positively.

In Q3, 13 positions were either sold or called. The proceeds were invested in five new issues and 10 new bonds, some of which were a longer version of the one sold. Further, the proceeds were spent on increasing current positions. 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

[Click here >](#)

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.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at sparinvest.lu. There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.