

A POSITIVE END TO THE YEAR

Positive returns across the risk spectrum

Markets. Credit spreads tightened by 46 basis points in the High Yield (HY) market in Q4. Accrued interest, spread tightening and lower government bond interest rates all contributed to the positive return. The benchmark delivered a return of 6.11% for the quarter, bringing the 2023 return up to 10.34%.

The High Yield market saw declining credit spreads from mid-October, reflecting shifts in risk sentiment, which continued to year end. Both risky and risk-free assets saw significant gains as government bond interest rates declined on the back of continued global disinflation combined with signals that a 'soft landing' or mild recession is more likely than not. Business confidence showed a stabilization in the otherwise declining confidence earlier in the year in the U.S., UK, and Europe, however still indicating negative growth in Europe and slight growth in the U.S.

In mid-December, the Federal Reserve (Fed) presented its updated estimates for growth and inflation in 2024, which were largely unchanged compared to the estimates presented in September. The Fed's own expectations for changes in the policy rate in 2024 were changed on the margin. Now a change of -75bp is expected compared to -50bp indicated in the September report. At the press conference, J. Powell stated that "Rate cuts are something that is beginning to come into view and clearly a topic of discussion". With this statement from the central bank governor, market participants were confirmed in their already high expectations for the start of a new monetary easing cycle in 2024.

Positive return ahead of benchmark in 2023

The Portfolio delivered a positive return of 5.18% in Q4, which was 0.93 percentage points behind the benchmark. In 2023 the fund has returned 11.09%, which was 0.74 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Materials, while Consumer Discretionary and Communications contributed most negative. The positive contribution from Financials came primarily from companies within debt collection and consumer lending, which again had a good quarter due to a better economic outlook and lower rates that make it easier for the lenders to pay back debt. Within Materials it was mainly companies within gold mining and other precious metals that contributed positively. The negative contribution from both Consumer Discretionary and Communication was primarily a result of the underweight to the sectors. The portfolio's relative return was negatively affected by the falling interest rate in the quarter, as the duration of the portfolio is lower than that of the benchmark.

In Q4, two positions were called. 14 positions were sold, with the majority in the Energy sector and more specifically the sub-sector Oil & Exploration. The proceeds were invested in 14 new issues and five new bonds and increasing current positions. The changes increased the funds' overall duration and weights in Industrials, Technology and Materials, while reducing the weight in Energy. The fund enters the new year with a higher credit spread and lower duration than the benchmark.

See performance and fund data

[Click here >](#)

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.

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.