Fund report, Q1 2024
Global Ethical High Yield
Fixed Income

Sparinvest

THE POSITVE TONE CONTINUED

Continued spread tightening

Markets. Credit spreads tightened by 78 basis points in the High Yield (HY) market in Q1. Higher government bond interest rates offset most of the positive contribution from tighter spreads leaving accrued interest as the main contributor to the benchmark return for the quarter. The benchmark delivered a return of 1.67% in Q1.

The High Yield market has seen declining credit spreads from mid-October, reflecting shifts in risk sentiment, which continued through Q1. The performance of the U.S. economy surpassed expectations of a slowdown, leading both the Federal Reserve (Fed) and economists to revise their forecasts, abandoning expectations of a recession and reviving investor optimism for a gentle economic deceleration. Consumer spending emerged as the primary catalyst, sustained by a persistently tight labor market, and increasing real wages. Furthermore, price data have heated up since the beginning of the year, and though it's premature to judge based on just two months of data, it has challenged the Fed's sureness in achieving a soft 2% inflation trajectory. Consequently, interest rates rose during the quarter and the market is now pricing in 2-3 rate cuts by the Fed versus 6-7 cuts going into the year. Risky assets continued their gains focusing on the stronger than expected economic data, which in the High Yield market, can be observed by the strong performance of the lower quality CCC-rated category versus higher quality in the B- and BB-rated categories. Lower spread levels and continued investor demand for High Yield has sparked companies' appetite for new issuance, with volumes in Q1 more than double that of Q1 last year.

Positive return ahead of benchmark in Q1

The Portfolio delivered a positive return of 2.74% in Q1, which was 1.07 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Materials, while Real Estate and Energy contributed most negative. The positive contribution from Financials was broad-based and came from both good selection and the overweight to the sector. Within Materials it was mainly companies in copper and precious metals that contributed positively on the back of increased metal prices. The negative contribution from both Real Estate and Energy was primarily a result of the underweight to the sectors, despite good selection within Energy. The portfolio's relative return was negatively affected by the structural underweight to the CCC-rated category but positively affected by rising interest rates in the quarter, as the duration of the portfolio is lower than that of the benchmark.

In Q1, the fund participated in 15 new issues, of which some were part of a refinancing where fund held the shorter bond called in connection with the new issue. The new issues were funded by reducing or exiting several positions with lower return potential. The changes increased the fund's overall spread, duration and weights in Industrials, Technology and Financials, while reducing the weight in Energy and Consumer Staples. The fund continues to have 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.