Fund Report, Q1 2024
Global Investment Grade
Fixed Income

Sparinvest

2024 – THE FOG HAS CLEARED

Robust companies

Markets. A dominant theme in Q1 was continued strong credit markets, where credit spreads fell to lower levels across the quarter. Global macroeconomic indicators showed resilience, fostering renewed hope for a soft landing for economies. However, U.S. inflation exceeded the Federal Reserve's target, sending US government bond yields on an upwards trajectory. This was also the case in Europe, where German yields were on the rise.

Companies presented decent financial statements, thus supporting the positive development. Margins are healthy across the rating categories AA, A and BBB despite the gradual phasing-in of the burden of interest rate rises in companies' financial statements. Consequently, it is only natural that interest rate hedging (EBITDA/net interest expenses) is decreasing from last year's very high levels. Since the peak point in June 2020, companies' net leverage has generally been on a downward trend, at or below the pre-2019 pandemic level after Q4/2023. This is particularly driven by companies with very strong AA credit ratings.

On the credit market, special focus was directed to commercial property lending, after US-based New York Community Bankcorp reported unexpectedly large losses on US commercial property in January. This sparked fear of the overall consequences of recent years' interest rate rises and refinancing scheduled for 2024 and 2025. European lenders financing commercial property are typically banks with differing degrees of exposure to US commercial property. Banks with the highest exposure rates are specialised German banks. The real estate sector came under true pressure in 2021 in China and subsequently in Sweden and Germany in 2022. Most property companies performed well last year, but the sector was also hit by bankruptcies. Challenges have spread to the banking sector in 2024. March saw an increase in single-name credit events in the European high-yield market. Not just one, but three such events. All three, SFR, Ardagh and Intrum, announced potential restructuring of debt in the capital structure. The companies are CCC rated, and the credit market deemed them to be idiosyncratic events. It is worth, however, keeping an eye on derived effects, such as outflow from retail funds, which may weaken the general high-yield market.

Yet another quarter with positive returns

The Portfolio. Q1 delivered positive returns driven by current bond interest and lower credit premiums, which were partly offset by lower yields.

The strongest contributions to the positive returns came from companies with the lowest credit ratings, investment grade of BBB, and from short-dated bonds. In terms of corporate capital structure, subordinated debt outperformed (senior) preferred debt, primarily from non-financial companies. As in 2023, the real estate sector was the sector to deliver the highest return in 2024.

The subfund delivered a positive excess return relative to benchmark in the quarter, ascribable mainly to its overweight of capital securities, while its underweight of the real estate sector has affected the excess return negatively.

In the quarter, gross and net issuance amounted to EUR 203bn and EUR 98bn, respectively, with EUR 97bn (gross)/EUR 52bn (net) from financial companies and EUR 107bn (gross)/EUR 46bn (net) from non-financial companies. These levels are at the high end and should be viewed in relation to the fact that companies have accepted the new interest rate level. They have chosen to derive benefit from the open capital markets, either by building cash balances or by taking shareholder-friendly measures. Issuance is concentrated in bonds with maturities of more than 7Y. The average duration of new issues was 7.5Y in Q1, but around 6.5Y in 2022 and 2023. If this trend continues, duration in the investment grade market will increase successively from the current 4.5Y. The demand side saw net inflow. Because if the finer prospects of a soft landing, combined with a higher interest rate level and higher credit spreads, credit investment looks more attractive.

See performance and fund data Click here >

Strategy
Global Investment Grade 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 Investment Grade bonds.

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.