

FURTHER FED EASING

Unchanged spreads, but lower yields

Markets. Credit spreads were close to unchanged in the Short Dated High Yield (HY) market in Q3. Lower government bond interest rates were the largest contributor to the benchmark return for the quarter followed by accrued interest. The benchmark delivered a return of 3.27 % in Q3, bringing the year-to-date return to 5.86%.

Throughout the third quarter, financial markets were influenced by easing monetary policies, mixed macro-economic data and resilient risk sentiment. The Fed signaled rate cuts early on, prompted by rising unemployment and moderating inflation, which created expectations of further monetary easing. Volatility peaked in August due to fears of a potential U.S. recession, following weak employment data. However, investor sentiment recovered after the release of better-than-expected economic data and dovish communications from the Fed, helping to stabilize risk assets. September saw lower volatility, with the start of the Fed's easing cycle and Chinese stimulus measures. The Fed's 50bp rate cut steepened the yield curve, which boosted risk sentiment particularly seen in the equity market, while China's economic measures provided temporary market support, leading to a strong rally in Chinese and China exposed equities.

The high level of issuance activity in the high-yield market persisted, as companies took advantage of declining yields to refinance existing debt at more favorable rates. This strong issuance activity saw volumes surpassing the total for 2022 and 2023 combined, significantly reducing the number of bonds maturing over the next two years.

Positive return ahead of benchmark in Q3

The Portfolio delivered a positive return of 3.31% in Q3, which was 0.04 percentage points ahead of the benchmark. Year-to-date the fund's return is 8.16%, which is 2.30 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Materials, while Consumer Discretionary and Industrials contributed most negative. The positive contribution from Financials was broad-based and came from overweight to the sector as selection was neutral. Within Materials the positive contribution primarily came from several positions in gold miners. These companies have benefited throughout the year from the rising gold price, while at the same time having relatively high credit spreads in relation to their low debt levels. The negative contribution from both Consumer Discretionary and Industrials was primarily due to the fund's underweight to these sectors where some bonds the fund didn't hold showed double digit returns during the quarter. The portfolio's relative return was also negatively affected by falling interest rates, as the duration of the portfolio is lower than that of the benchmark.

In Q3, the fund participated in 11 new issues, of which some were part of a refinancing. Furthermore, five new positions were added in the secondary market. The new issues were funded by reducing or exiting several positions with lower return potential and 11 bonds which were called or matured. The changes increased the fund's overall spread, duration and weight in Materials and Consumer Discretionary.

See performance and fund data

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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.

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