Sparinvest

SWEET SPOT

Stable macroeconomy and strong companies

Markets. The macroeconomic development is positive for the credit market. Economic growth in both Europe and the U.S. is stable or increasing. Inflation has stabilised, and further tightening of the monetary policy is not expected; on the contrary. The reaction has been accordingly, and we have seen a tightening of credit spreads.

The fundamentals of companies remain strong. Indebtedness is declining because of companies actively reducing their debt to counter expected weaker earnings from rising finance costs, among other things. However, earnings appear to be better than expected and will further strengthen companies' balance sheets.

The dominant market theme in June was the development in France. In the European Parliament elections, the extreme right was the big winner of the election in France, and the big loser was French President Macron and his party Renaissance. This prompted Macron to call an election for the National Assembly, with the first round taking place on 30 June and the second round on 7 July.

The government bond market reacted negatively to the calling of the election, and the announcement from the European Commission did not make things better. The credit rating of France is stable at the three major rating agencies, but the development suggests that the credit rating of France and French companies may be on a downward trend. Yields on French government and corporate bonds rose relative to other European governments and companies.

Positive returns

The Portfolio. In Q2, returns were positive. Returns were mainly driven by current bond interest and the positive contribution from lower credit spreads, which were offset by rising yields. This pattern has been characteristic of the whole year.
The analysis of the returns for the quarter and for the year has shown that the largest positive contributions came from companies with the lowest credit ratings, BBB in Investment Grade and CCC in High Yield, 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.

Subfunds with Investment Grade credit ratings delivered positive excess returns compared with their benchmarks in the quarter. This can primarily be attributed to the overweight of financial companies, capital securities and participation in new issuances. The fund has been underweighting the real estate and industrial sectors, which this year have contributed negatively to the excess returns.

As in Q1, issuances in Q2 were at the high end. This year, gross and net issuance amounted to EUR 368bn and EUR 117bn, respectively. Companies largely have made sure to get their financing in place. After the pandemic, companies built up large cash balances that have gradually been reduced, and companies are now focusing on rebuilding cash balances.

In Q2, maturities of these issues differed from non-financial and financial issuances. Non-financial companies issued a high proportion of 10-15Y bonds, and +20Y maturities. Uncertainty caused by the French parliamentary election meant that financial companies mainly issued 3-5Y bonds.

On the demand side, there have been net inflows in Q1 and Q2 from investment funds with credit investments – both in terms of Investment Grade and High Yield. Stable macroeconomic developments, strong capital markets and higher yield and credit spreads have resulted in strong demand for credit investments.

See performance and fund data Click here >

Strategy
Sustainable Corporate Bonds invest in global companies. The bonds are selected from companies with stability or improvement in their creditworthiness and have attractive loan terms. These are good and solid companies with a mature business model and a strong market position. The financial profile is characterized by moderate indebtedness and stable cash flow generation. The investment strategy is based on disciplined risk management with prudent risk diversification across sectors, credit ratings, types of debt, regions, and maturities.

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