

# RESILIENT CREDIT MARKETS

## Government interest rates on the rise

**Markets.** Credit spreads tightened by 21 basis points in the High Yield (HY) market in Q4. Accrued interest was the largest positive contributor to the benchmark return for the quarter followed by tighter spread, however higher government bond interest rates pulled down the benchmark return to 0.15% in Q4, bringing the full year 2024 return to 7.49%.

Risk assets experienced mixed performance over the quarter. While the period began on a strong note, momentum varied across regions and asset classes. U.S. equities faced their first monthly decline in six months during October but rebounded sharply in November, driven by optimism following the U.S. elections and a strengthening dollar. European equities struggled, weighed down by weak economic indicators, political instability, and divergent PMI data, highlighting contrasting economic trajectories across the Atlantic. Government bond yields rose significantly, especially in the U.S., influenced by improving economic data, diminished expectations of aggressive rate cuts, and renewed inflation concerns. In December, a hawkish stance from the Federal Reserve and subdued actions by the European Central Bank intensified market uncertainty, pushing yields to multi-month highs. The U.S. 10-year Treasury yield closed at its highest level since April, while spreads between French and German bonds widened to levels unseen since 2012 amid political turbulence in France.

Credit markets showed relative resilience, with high-yield spreads tightening. However, regional disparities persisted, as U.S. corporates benefited from economic optimism while European counterparts were pressured throughout November by weaker fundamentals and political discord. Despite some headwinds, credit instruments outperformed government bonds, supported by higher yield accruals and spread tightening. The high level of issuance activity in the high-yield market persisted, despite rising government bond interest rates as companies took advantage of declining spreads to refinance existing debt. This strong issuance during the year

resulted in issuance volumes for 2024 surpassing the combined total for 2022 and 2023, thus reducing the number of bonds maturing over the next two years.

## Positive return ahead of benchmark in Q4 and the year

**The Portfolio** delivered a positive return of 0.43% in Q4, which was 0.28 percentage points ahead of the benchmark. For the full year of 2024 the fund's return was 9.88%, which is 2.39 percentage points ahead of the benchmark.

The most positive sector contributions relating to the benchmark came from Financials and Energy, while Communications and Technology contributed most negative. The positive contribution from Financials was broad based and came from a combination of the overweight to the sector as well as positive selection. Within Energy the positive contribution primarily came from an American energy infrastructure company and a Danish windmill service company. The American company raised new equity on the back of liquidity concerns and also extended its maturity profile which benefitted the short maturity bonds. The Danish company was taken over by a stronger private equity company which made the bonds trade up in price. The negative contribution from both Communications was primarily due to the fund's underweight to the sector but also due to selection as the fund has next to no exposure to the highly leveraged cable companies in Europe which performed relatively well in Q4. Within Technology the minor negative contribution was broad based and due to selection as the fund has a slight overweight to the sector.

In Q4, the fund participated in 10 new issues, of which some were part of a refinancing. The new issues were funded by reducing or exiting several positions with lower return potential and eight bonds which were called or matured. The changes increased the fund's overall spread, duration and the weights in Materials, Energy, Financials and Consumer Discretionary. 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.

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