Fund report, Q4 2024
Sustainable Corporate Bonds
Fixed Income

Sparinvest

SWEET SPOT

A strong investment year with high returns

Markets. The dominant theme in Q4 and for the entire year was the robustness of credit markets. The global economic development has shown a positive and subdued growth trend. In the United States, there has been sustained solid economic growth with low unemployment and rising consumption, while the economic development in Europe has been stagnant. T
he divergent development has also resulted in diverging monetary policies, where the Federal Reserve in the U.S. is not as keen as the European Central Bank to ease key policy rates. Inflation in the U.S. has not reached the central bank's target, and this has caused U.S. Treasury yields to rise. We have seen the same development in Europe at a more subdued pace.

In 2024, companies have generally reported decent financial results and earnings growth. There have been clear signs that rising interest rates were starting to affect companies' costs. The rising interest rates have resulted in a decline in the interest coverage ratio to the pre-pandemic level. Net leverage (net debt to EBITDA) remained stable and is also close to pre-pandemic levels. This indicates that, on average, companies have a manageable debt burden, although the increase in funding costs may start to exert additional pressure on them in the coming quarters. Fundamentally, credit quality is robust, and this has had a supportive effect on credit premiums.

During the year, there have been several market themes, all of which had an impact on credit markets in the form of increased volatility and temporarily higher credit spreads. In August, markets were hit by concerns about China's economy, which pointed to an even weaker growth momentum in the global economy, while the election in November of Donald Trump as the next president of the United States provided uncertainty about potential measures by the new Trump administration and their consequences. In the euro area, political turmoil erupted in Germany, where the German coalition government collapsed, and French politics were marked by instability.

Corporate bonds continued to deliver positive returns

The Portfolio. The return was positive in Q4 driven by unchanged credit premiums, which were offset by higher interest rates.

The positive return was driven by the current interest from the bonds and lower credit premiums, which were partly offset by higher interest rates. The strongest positive contributions to returns came from companies with the lowest credit ratings, BBB, in investment grade 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 has been the sector to deliver the highest return in 2024.

In the quarter and for the year, the fund delivered a negative excess return compared to benchmark. This can primarily be attributed to an overweight in financial companies, where capital securities made a positive contribution. The fund's participation in new issues also made a positive contribution. The fund has been underweight real estate and healthcare, which this year contributed negatively to the excess return.

In 2024, the corporate bond market was characterised by stability, providing a solid foundation for companies' access to funding. Within Investment Grade, gross and net issuances were high in 2024 at EUR 594bn and EUR 151bn, respectively. The issues were distributed with EUR 274bn gross/EUR 75bn net from financials and EUR 320bn gross/EUR 76bn net from non-financials. Thus, the high level came primarily from non-financials, whose level of net issuance was at the highest level since 2020.

Demand measured by inflows to credit funds was positive for both Investment Grade and High Yield. Inflow was largely driven by retail investors, who reacted to the attractive levels of interest rates and credit spreads. The high demand was a strongly supportive to credit spreads.

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.