Fund report, Q1 2025
Global Ethical High Yield
Fixed Income

Sparinvest

TRADE POLICY UNCERTAINTY

Shifts in sentiment and risk appetite

Markets. Credit spreads widened by 48 basis points in the High Yield (HY) market in Q1. Accrued interest was the largest positive contributor to the benchmark return for the quarter followed by lower government bond yields. However, the wider credit spreads dragged the benchmark return down to 0.84% in Q1.

The first quarter of 2025 saw significant fluctuations in credit spreads, market sentiment and risk appetite. High Yield (HY) credit spreads experienced notable volatility, with a sharp decline in January, a slight increase in February, and a substantial rise in March. This volatility was mirrored in the performance of risk assets, which started the year strong, driven by positive growth data, corporate earnings, and inflation figures, but faced headwinds from trade policy uncertainty and growth concerns, particularly in the U.S.

European markets generally outperformed their American counterparts, buoyed by strong fiscal policy announcements and resilience amid global uncertainties. American tech stocks faced pressure from growth concerns and trade threats, leading to a divergence in performance between European and American markets. The HY market saw varying performances across credit rating categories, with US HY widening by 45bp more than European HY and CCC-rated credits showing the most significant movements. European CCC-rated credits outperformed other segments, reflecting the region's strong economic performance. The new issuance market remained robust, particularly in the BB category with maturities between 7-10 years.

Positive return ahead of benchmark

The Portfolio delivered a positive return of 1.55% in Q1, which was 0.71 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Materials, while Energy and Consumer Staples 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. One position in a European debt collector stood out with high returns on the back of clarity on their financial restructuring. Within Materials the positive contribution primarily came from an Ukrainian steel producer that has come with good results despite the war and showed a clear path to paying their bond back in full in Q2. Further the positions in gold miners contributed nicely as they are benefitting from the strong gold price. The negative contribution from Consumer Staples was primarily due to the fund's underweight to a US retailer that was acquired by a private equity fund which resulted in their bonds giving double digits returns in march. Within Energy the negative contribution was broad based and due to the underweight to the sector.

In Q1, the fund participated in 9 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 two called bonds. The changes increased the fund's overall spread and duration with no significant changes in sector positioning.

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.