

WELL BEGUN IS HALF DONE

Uncertainty has crept in.

Markets. In the first three months of the year, uncertainty about the macroeconomic development has been growing. January presented solid economic indicators, a positive risk sentiment and a credit market with tightening of credit spreads. During the quarter, sentiment shifted in a more negative direction, driven by escalating trade conflicts and rising inflation expectations. The credit market followed suit, as credit spreads widened.

The trade war has been the predominant theme. The US has imposed tariffs of up to 25% on key sectors such as steel, aluminium and cars, and further escalation can be expected with retaliation measures and a full-blown broad-based global trade conflict. Interest rates rose significantly at the beginning of the year, but ticked down somewhat in line with falling confidence levels and concerns about lower growth. Europe has been a positive surprise with rising growth expectations, primarily driven by German fiscal stimulus and a targeted EU plan for increased defence and infrastructure investments.

In the US, Moody's confirmed the credit rating of the US at Aaa, but pointed out that the development in the country's ability to honour its debt is significantly weaker than that of other Aaa rated countries. S&P and Fitch have downgraded their assessment of US creditworthiness to AA+, which is the next highest credit rating. Downgrades of a country's credit rating have historically implied expectations of higher interest rates in the country. With the USD as the world's reserve currency, however, the causality is not clear-cut.

The corporate sector presented mixed results for Q1. The tech sector in particular has been disappointing, which has raised doubts about whether the previous high growth rates could be sustained. Signs of margin pressure are emerging in more cyclical sectors, while defensive industries have performed better.

Low-end returns

The Portfolio. Returns in Q1 were negatively driven by positive current income and lower credit premiums, which were offset by higher interest rates.

The performance analysis shows that the largest contributions were from companies with the lowest credit ratings, BBB. Especially shorter-dated bonds contributed positively to the return. In terms of corporate capital structure, subordinated debt outperformed (senior) preferred debt.

The fund delivered a negative excess return relative to benchmark in the quarter, which was primarily attributable to overweight in the telecommunications and industrial sectors. Overweight in financial companies and capital securities in general have contributed positively, but could not offset the negative contribution.

The corporate bond market was characterised by continued stability, which provided a solid foundation for companies' access to funding. Gross and net issuances were high at EUR 211 billion and EUR 54 billion, respectively. The issues were distributed with EUR 121 billion gross/EUR 42 billion net from financials and EUR 90 billion gross/EUR 12 billion net from non-financials.

The high level in the quarter was primarily from financials, which had their highest level ever.

We continue to see significant demand for credit funds. Compared to alternative investments, investing in credit funds has offered a relatively high and predictable return. The strong demand has materialised through the scope of oversubscription for new issues and new issuance premiums. With bid-to-cover of 3.4x and a relatively low new issuance premium of 5-10bp, the balance between demand vs supply is robust.

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.

certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at sparinvest.lu. There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.