

Tariffs and turbulence

Large shifts in sentiment and risk appetite

Credit spreads tightened by 42 basis points in the High Yield (HY) market in Q2. Accrued interest was the largest positive contributor to the benchmark return for the quarter followed by credit spreads and lower government bond yields. This resulted in a benchmark return of 2.52% in Q2, bringing the year-to-date return up to 3.38%.

Risk assets fluctuated throughout the quarter, marked by significant shifts in sentiment driven by trade policy developments, geopolitical tensions, and diverging economic signals. Credit spreads in the high-yield market widened sharply in April amid heightened volatility following unexpected U.S. tariff announcements on Trump's "Liberation Day". The resulting market shock led to one of the worst short-term equity declines in decades, and credit spread widening with lower-rated credit segments hit hardest. Despite a rebound in equities later in the month, credit markets remained under pressure, and new issuance slowed.

In May, sentiment improved, supported by stronger-than-expected economic data and a temporary easing in trade tensions. Credit spreads compressed notably, particularly in riskier segments, reflecting renewed risk appetite. However, political uncertainty in the U.S. regarding fiscal negotiations weighed on long-dated government bonds, which first rose and then partially reversed. Equity markets softened in the second half of the month as caution returned.

June saw continued strength in credit, driven by tighter spreads and falling short-term U.S. government yields, resulting in solid positive returns. Market participants appeared more comfortable with the outlook for inflation and growth, even amid geopolitical shocks, including a brief conflict between Israel and Iran. Strong demand for high-yield assets fueled robust issuance, as companies moved quickly to refinance at favorable levels. Performance across credit rating segments were almost identical, but with different volatility matching their riskiness.

Positive return behind the benchmark

The portfolio delivered a positive return of 1.83% in Q2, which was 0.69 percentage points behind the benchmark. Year-to-date the fund's return is 3.41%, which is 0.03 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Consumer Staples, while Energy and Consumer Discretionary contributed most negative. The positive contribution from Financials was broad based and came from a combination of the sector overweight as well as positive selection. One position in a European debt collector contributed significantly as it completed its restructuring, providing greater clarity for its future prospects. Within Consumer Staples the positive contribution primarily came from a UK retailer that rebounded after weak performance in Q1. The negative contribution from Energy was primarily due to an energy infrastructure company that delivered very weak results for Q1 as both revenue, profits and liquidity was significantly lower than expected. Within Consumer Discretionary the negative contribution came from the sector underweight and selection.

During the first half of 2025, we implemented stricter exclusion criteria for Ethical and Responsible funds, further advancing our commitment to sustainable and responsible investment practices. Specifically, the revised criteria now exclude companies deriving more than 5% of their revenue from the exploration, extraction, manufacturing, distribution, or refining of oil and gas fuels. Additionally, retail fossil fuel operations are excluded under a 25% revenue threshold. The implementation of these enhanced exclusions resulted in the divestment of approximately 7.4% of the portfolio's weight, spread across 15 companies. The proceeds were spent on 7 new issues, 5 new positions and increases to existing positions. This move decreased the overall credit spread of the portfolio and increased its underweight position in the energy sector relative to its benchmark.

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.

This is marketing communication prepared by Sparinvest S.A. ("Sparinvest"). Please, refer to the Sparinvest SICAV prospectus and to the KIID/KID before making any final investment decisions. This is not a solicitation, an offer, or a recommendation to buy or sell any investment or to engage in any other transaction, or to provide investment advice. Past performance does not predict future returns. Capital at risk: the value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount invested. Investments may be subject to foreign exchange risks. Investment in the Sparinvest product concerns the acquisition of units of shares in a fund, and not in a given underlying asset. The indicated performance is calculated without consideration of subscription or redemption fees. All relevant materials (in English) are available free of charge at sparinvest.eu or by request. Information from external sources is used without verification and Sparinvest accepts no responsibility for their accuracy. Sparinvest may decide to terminate the arrangements made for the marketing of investment products.