

Tariffs and turbulence

Large shifts in sentiment and risk appetite

Credit spreads tightened by 40 basis points in the Short Dated 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 2.26% 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 1.63% in Q2, which was 0.63 percentage points behind the benchmark. Year-to-date the fund's return is 3.14%, which is 0.02 percentage points ahead of the benchmark.

The most positive sector contributions relative to the benchmark came from Financials and Consumer Staples, while Consumer Discretionary and Energy 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 Consumer Discretionary was broad based and came both from the sector underweight and selection. Within Energy the negative contribution also came from a variety of positions including an energy infrastructure company that delivered very weak results for Q1 as both revenue, profits and liquidity was significantly weaker than expected.

In Q2, the fund participated in five new issues, of which some were part of a refinancing. Furthermore, four new positions were added in the secondary market. The new issues and positions were funded by reducing some positions with lower return potential and five bonds which either matured or were called. The changes increased the fund's overall spread and duration and the fund continues to have a higher spread and slightly lower duration relative to the benchmark.

Strategy

Global Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.

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