Stable current returns

The market

The year was characterised by considerable uncertainty about global economic developments. In the US, trade conflicts and rising inflation expectations dominated the agenda at the beginning of the year, contributing to higher interest rates and increased volatility. At the same time, the US economy proved more robust than feared, and Federal Reserve interest rate cuts were a positive boost to risk appetite.

Europe surprised positively throughout the year with moderate growth supported by fiscal initiatives, particularly in Germany, as well as increased defence and infrastructure investments. The risk gradually shifted from recession fears to concerns that monetary policy easing could eventually lead to higher inflation and new interest rate increases.

Overall, credit markets developed more robustly than anticipated, despite significant macroeconomic and geopolitical uncertainty. The return on Investment Grade corporate bonds was positively supported by attractive regular income and continued low bankruptcy rates. Companies' financial statements showed robustness and resilience throughout the year, albeit with signs of a slowdown in cyclical sectors. Margins remained historically high, but gradually came under pressure by higher costs and refinancing challenges.

Overall, credit quality was stable, and no systematic downgrades were observed. Bankruptcy rates remained low, supported by good access to refinancing.

Whereas 2024 was largely driven by regular income in a stable interest rate and credit environment, 2025 was characterised by a positive contribution from narrowing credit premiums, which was partly offset by slight headwinds from higher interest rates. There have been no major credit incidents, and the return was primarily driven by the high regular investment income. Credit spread and interest rate levels have been relatively high with a high regular return.

The portfolio

The portfolio delivered a positive return in Q4, outperforming the benchmark.

The analysis of the return for 2025 has shown a development that was very similar to the development in 2023 and 2024. In terms of credit quality, the BBB companies performed best. This was due to the fact that the credit spreads of BBB companies decreased more than the credit spreads of A, AA and AAA companies over the year. Additionally, BBB companies have a lower interest rate sensitivity and are less affected by the headwinds of rising interest rates. The same pattern applied to the capital structure, where credit spreads of capital securities fell more than credit spreads of senior bonds.

The analysis of the returns for the quarter and for the year shows that the largest positive contributions came from companies with the lowest credit ratings, BBB. Especially longer-dated bonds contributed positively in Q3. In terms of corporate capital structure, the picture was the same as in Q2. Subordinated debt outperformed (senior) preferred debt, primarily from non-financial companies.

The funds' excess return relative to benchmark can primarily be attributed to an overweight in financial companies, where capital securities from banks and insurance companies have made a positive contribution. Capital securities from non-financial corporations and participation in new issues also contributed positively. Conversely, underweight in the real estate and consumer staples sectors has contributed negatively.

At the beginning of 2026, credit spreads are lower than at the beginning of 2025, while yields-to-maturity remain at the same level. Yields-to-maturity have been falling since the beginning of 2023, and the buffer against movements in yield and credit spreads has become smaller. It also means that the absolute return in the coming period will depend significantly on the development in yield levels.

Strategy

Responsible 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.