

## Value Bonds 2016

FIXED INCOME

# Market momentum continues

## Sentiment driving the market

**Market drivers** Credit market strength from March continued into April and resulted in spreads tightening across the majority of the credit spectrum. Even in the UK, the credit markets rallied. We say even, because the “Brexit” is potentially the biggest risk catalyst for volatility, primarily due to the unknown impact of such action.

Commodities have continued to rise. Oil in particular has continued to grab attention with continued positivity amongst investors. The Fed’s continued dovish tone has supported commodities and emerging markets, however this will be tested in the upcoming Fed meeting in June. Unemployment figures will support the market view that we are about to see another rate increase.

Except for the “Brexit”, where the market pricing strongly implies a stay vote, Europe’s economy appears to be in a good shape. It is also interesting how much the overall market sentiment has shifted from fear to a “grab for yield” environment. On the EM front additional stimulus in China is also supporting the economy there.

The quarterly earnings season has kicked off and will be the main focus and driver of our markets in May.

## Performance in line with markets

**Performance** The fund benefitted positively from the general strengthening of credit spreads during April, as in a March the major contribution came from coupons. With an effective yield of 2% we still see some decent return potential for the rest of year, especially comparing it to a cash deposit rate of -0.70%.

Energy was the best performing sector in April, primarily impacted by the major government owned E&P companies. The increase in oil prices has immediate earnings impact for the E&P companies, whereas all the remaining subsectors in the oil industry are working on contracts that are not directly linked to the oil price.

Only a handful of bonds traded widely during the month and no single sector contributed negatively to the overall return.

## Proceeds reinvested in quality bonds

**Portfolio Changes** As we are getting closer to final maturity of the fund, the maturity underlying bonds are also coming to an end. In April we received 3-5% back in cash due maturities and buy backs. We reinvested the proceeds in quality names with an effective yield close to zero.

## Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by investing in short-dated corporate bonds. The selection process is based on in-house bottom-up research with main focus on companies with strong cash flow and asset backing. The Buy-And-Hold approach also makes it possible to exploit market premiums from less liquid issues.