Sparinvest

High Yield Value Bonds Short Duration 2018

FIXED INCOME

Headlines dominated by politics

Emerging Markets in focus

Markets turned negative in August as spreads widened driven by weakness in Emerging Markets and to some extent Europe. The broad High Yield market gave a negative return of 0.26 percent, bringing the year-to-date return to minus 1.15 percent.

During August, we witnessed a number of significant market events. First, the Turkish Lira dropped heavily (25 percent) vs. the U.S. dollar, which led to a steep sell-off in Turkish corporate bonds. This happened as the culmination of growing unease in emerging market debt markets and a chronically strengthening U.S. dollar. In addition, the ZAR and ARS dropped heavily as South Africa and Argentina due to their dependency of foreign capital were treated like Turkey.

Italy also made negative headlines due to the newly formed government, which was openly challenging the Maastricht Criteria's three percent budget deficit provision. The yield on Italian 10-year government bonds rose to 3.19 percent and the spread to German 10-year government bonds widened to 2.84 percent from 2.29 percent at the end of August.

Trade tensions continued in August as Trump called for 25 percent tariffs on 200bn USD of Chinese import after the market had found some relief in the surprise trade agreement between Mexico and the U.S. Because of nervous markets and weakening macroeconomic headline figures, long interest rates in German and U.S. government debt markets dropped during the month, although global developed equity markets generally rose to new highs.

Decent performance

The Portfolio performed reasonably well in a weak overall credit market, as the low duration protected the fund from the overall weakness. The fund return in August was minus 0.11 percent gross of fees, which we still believe is quite satisfactory, compared to the overall credit markets.

Similar to previous months, again the financials and energy sector battled for the top spot. This month, energy ended the month in the lead, driven by the oil price and continued speculations of supply shortage. The negative contribution to the fund return came from the non-cyclical consumer sector with a Turkish subsidiary of a large international company making the largest negative contribution, followed by a French supermarket chain being downgraded following weaker earnings and high leverage. During the month, we sold both these positions in order to avoid further losses towards the maturity of the fund.

During the month two bonds matured and no new positions were added. We are very careful to balance the risk budget of the portfolio with the short maturity, so we are mainly targeting new investments with ratings of BB or better. As part of the cash management, we also started adding government bonds to the portfolio.

Return is calculated gross of fees and excluding swing.

See performance and fund data Click here ›

Strategy

High Yield Value Bonds Short Duration 2018 invests in short-dated 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. The maturity date of the Fund is December 31, 2018.