Sparinvest

Value Bonds – Global Ethical High Yield

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 benchmark gave a negative return of 0.26 percent, bringing the year-to-date return to minus 1.15 percent.

During August, a number of significant market developments were witnessed. First, the Turkish Lira dropped heavily (25 percent) vs. the U.S. dollar, which lead 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 US. Because of nervous markets and weakening macroeconomic headline figures, long interest rates in German and U.S. government debt markets dropped during the month.

Capital preservation

The Portfolio provided a positive return of 0.08 percent in August, which was 0.34 percent better than the benchmark, bringing the excess return to 1.49 percent year-to-date.

Energy delivered the highest contribution to the fund's return in August and was one of the best sectors versus the benchmark, as a majority of the positions outperformed.

The fund benefitted from its underweight in Emerging Markets relative to the benchmark. However, the absolute return of the fund return was impacted slightly by the emerging market exposure. Financials stood out as the best sector compared to the benchmark, as a majority of the financials in the benchmark were banks in emerging markets. The single worst contributor to the funds return was an Argentinian Utility company, which fell in parallel with Argentinian bonds and resulted in Utilities being the worst sector of the month.

August was a regular month in terms of activity as bonds that had reached our target were replaced with positions that were more attractive. The fund continued to be underweight Emerging Markets as well as Southern Europe in general and fully underweight Turkey.

After a very slow period for the primary market, we expect that to pick up in September, which may weigh on secondary spreads. Current cash position enables us to be active in both primary and secondary market in the coming month as opportunities arise.

Return is calculated gross of fees and excluding swing.

See performance and fund data Click here ›

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.