Sparinvest

Value Bonds - Short Dated High Yield EUR R

FIXED INCOME

The credit rally continued

Market turmoil dampened by Fed

Markets August were tumultuous in High Yield, which followed other risk assets. The benchmark showed a negative return of 0.38 percent, primarily driven by the events in Argentina. This brought the year-to-date return to 5.91 percent.

An escalation in the U.S.-China trade war brought some fear to the market at the beginning of August as most risk assets dropped. However, the dovish rhetoric from central banks helped to stabilize markets during the rest of the month reducing the initial drop significantly. Further worries came to the market as the U.S. yield curve inverted. Not only is the 3-month to 10-year curve inverted (back from March). Now, the even more scrutinized 2- to 10-year curve has also inverted, which is normally a precursor for a recession within 24 months. Long-term interest rates in general made new all-time lows across most developed countries whereas the yield on 30-year German government bond fell to -0.27 percent mid-month.

Both the UK and Italy generated headlines during August. The British prime minister, Boris Johnson, suspended parliament for five weeks, making it difficult for "remainers" to block the decision to execute Brexit (either hard or soft) at October 31st. Italy got a new government. The consolidation is seen as EU positive, which moved rates lower on Italian government debt due to a lower expected budget deficit.

The biggest country event of August and potentially for all of 2019 was the over 50 percent drop in prices of Argentina's debt following a worse than expected primary election result in August. Election poles turned out to be unreliable and what was expected as a non-event introduced the notion of a potential default on Argentinian debt – also affecting corporates.

Weak performance

The portfolio delivered a negative return of 0.77 percent in August, which was 0.39 percentage points behind the benchmark. As a result, the fund is now behind its benchmark by 0.65 percentage points year-to-date.

Real Estate and Utilities were the two sectors that provided the largest positive contribution to the month's return relative to the benchmark, while Financials and Consumer Staples were the worst contributors. In Real Estate, the contribution came primarily from the funds underweight in Chinese real estate companies, which had a rough month. Within Financials, it was the positions in Argentina that contributed negatively after the primary elections. The negative contribution from Consumer Staples came from an Indonesian producer of palm oil, whose credit rating was downgraded in August.

During the month, the fund sold two positions, reduced in two names and five names were called. The proceeds from this were invested in five new names and in a number of existing positions.

The changes did not have a significant impact on the fund's sector positioning. Overall, the fund still has the same credit spread and a slightly lower duration compared to the benchmark.

Return is calculated gross of fees and excluding swing.

See performance and fund data Click here ›

Strategy

Value Bonds - 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.