FUND REPORT

December 2016

Sparinvest

Emerging Markets Corporate Value Bonds

FIXED INCOME

Positive market in December

FED hikes, ECB still in easing mode

Markets Emerging Market credit spreads tightened in December to the lowest level recorded in 2016 at 3.07% from 4,28% at the beginning of the year, continuing the positive performance of the asset class.

The positive sentiment in December was mainly caused by revised US growth expectations and, at the same time, the negative consequences from Trump's adverse trade policies and higher rates were downplayed.

The big news in December was the long expected hike from the central bank in the US that finally arrived. On top of that, the FED Chair Janet Yellen showed increasing optimism about the US economy and signaled interest rates would rise at a faster pace than previously projected. The FED now expects three hikes in 2017 against two as previously expected. This caused US treasury yields to rise.

In September, FED policy makers had anticipated two rate increases in 2017. What has changed since then is positive economic news including unemployment, which hit a nine-year low in November, and the prospect of faster growth after Mr. Trump takes office.

In Europe, the president of the ECB Mario Draghi promised to extend the buying of bonds to December 2017 or beyond.

OPEC countries and a list of non OPEC countries are expected to reduce oil output as part of a deal made in the end of November. As a result, oil prices increased in December from 49 USD a barrel to 54.

Outperformance in December

The Portfolio The benchmark was up in December yielding positive total returns. The region that underperformed and gave a neutral total return was Asia. Asian credits saw slightly lower credit spreads in December, and it was not enough to outweigh the negative effects from higher treasury rates. In general, Asian credit names trade very tight compared to the benchmark.

The fund outperformed the benchmark in December and one of the reasons is an underweight to Asian credit names. In general, credits from Eastern Europe and Latin America did well in December, partly because of higher oil. The fund has an overweight to credit names from Russia and Ukraine which is another reason for the outperformance. In December we also saw a nice comeback for Mexican credit names which the fund is fairly neutral on.

In the beginning of December, the fund was underweight duration which has been a good position after the election of Trump. Duration in the portfolio is now more in line with the benchmark as longer bonds were added to the portfolio in December.

One of the best performing credits in the fund was a Ukrainian poultry producer which was upgraded by Fitch following the upgrade of the sovereign in November. One of the worst performers in the fund was a long dated bond issued by an Israeli pharma company.

See performance and fund data Click here ›

Strategy

Emerging Markets Corporate Value Bonds primarily invests in Emerging Markets 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. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extend non-rated corporate bonds.