

## Value Bonds 2018 - 50/50

FIXED INCOME

# An eventful month in bond markets

## Market volatility came back

**Markets** The eventful start of the year continued during February. After a long period with exceptionally low volatility, the market reacted nervously at the beginning of February, when figures for U.S. wages were considerably higher than expected. Low wage inflation – and low inflation in general – has been one of the main reasons to keep rates low in the U.S.

The VIX Index virtually exploded from historic lows to almost 50 – a level normally associated with very high uncertainty in the equity markets. Although uncertainty increased in the riskiest asset classes, the unwinding of speculative positions in the VIX index mainly caused it.

As a result, all major asset classes provided negative returns during February. Global High Yield returned minus one percent sending the year to date return into the negative territory. However, high yield investors were still better off vs investment grade, which returned minus 1.1 percent in February on the back of its higher duration.

All sectors were negative with cyclicals such as Energy (minus 1.7 percent) and Materials (minus 1.2 percent) leading the losses. The more defensive sectors also produced negative returns with consumer staples (minus 0.2 percent) doing best.

Despite the difficult month, high yield fundamentals seemed to be in good shape. The reported earnings was in general strong and the general growth in corporate credit was moderate resulting in an overall reduction in leverage. Combined

with the economic growth and the tax reform mentioned last month, high yield fundamentals should have a continued tailwind in the intermediate future.

## Strong capital protection features

**The Portfolio** performed relatively well in the current environment by preserving capital. The mix of investment grade, high yield and short maturity especially provided the cushion in a difficult market. The fund return in February was 0.01 percent.

In February, once again the energy sector made the largest contribution to fund return. However, this month it was closely followed by financials.

In terms of single issuers, February saw no significant news flow and no stand out market movers in either direction. The top performers was again the two Norwegian oil companies described in previous updates.

In February, two positions were called, four matured and finally we took profit on one position. The proceeds were partially reinvested in two existing names.

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.

Return is calculated gross of fees and excluding swing.

See performance and fund data [Click here >](#)

### Strategy

Value Bonds 2018 50/50 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. Up to 50% of the portfolio are invested in Investment Grade bonds and up to 50% in High Yield. The maturity date of the Fund is December 31, 2018.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at [sparinvest.lu](http://sparinvest.lu). There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.