FUND REPORT
February 2018

Sparinvest

Value Bonds - Emerging Market Corporates

FIXED INCOME

Interest rate hikes continued

Market volatility returned in February

Markets Rising interest rates in the U.S. continued to drive markets in February, which resulted in increased volatility across all asset classes.

After an extended period with exceptionally low volatility, markets reacted 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 levels normally associated with very high uncertainty. Although uncertainty increased in the riskiest asset classes, the unwinding of speculative positions in the VIX index mainly caused it.

Despite the volatility and negative performance in emerging markets debt, we continued to see long dated issuance in February. These new issues had significant premiums to existing bonds given the markets. The fund participated in a number of them.

Most asset classes delivered a negative return, including emerging market corporate bonds. Longer dated bonds in emerging markets performed worst. On average, high yield and investment grade rated emerging markets countries performed equally poor in February despite the longer duration among investment grade rated issuers.

Despite the weak month, company fundamentals on average seem to be in good shape. The reported earnings have in general been strong, which combined with moderate growth in corporate credit has resulted in an overall reduction in leverage.

It was relatively quiet on the specific emerging markets headlines in February; all eyes were on U.S. interest rate policy as well as fund flows in emerging markets. Flows turned negative on the back of performance but also due to the high historical sensitivity to interest rates.

Defensive positioning plays out

Portfolio The portfolio ended February 0.32 percent ahead of benchmark with a negative return of 0.89 percent driven by defensive positioning in the portfolio.

Performance came from our Kurdish oil company exposure, and further we benefitted from our relative underweight in a global telecom operator in small emerging markets. The largest negative contributor in the month was our holding in a long dated bond issued by a Brazilian chemical company.

During the month, we closed out of our position in a Jordanian pharma business, which have been a very strong performer over past two months. One of our Peruvian positions was called. On the other side, we added to two existing positions in oil and gas space, one in Brazil and one spread across EM markets. The portfolio is currently positioned to take advantage of any further turmoil we might see in the short term.

Return is calculated gross of fees and excluding swing.

See performance and fund data Click here ›

Strategy

Value Bonds - Emerging Market Corporates 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.