

## Value Bonds 2018 - 50/50

FIXED INCOME

# Decent start to the year

## Strong markets despite political noise

**Markets** Headlines in January were dominated by political topics, from the inauguration of Trump to UK's Brexit negotiations and upcoming elections throughout the Eurozone.

That said, markets were more focused on the further strengthening of macroeconomic figures that were published during the month. This included higher retail sales growth and industrial production growth in the Eurozone combined with a further drop in the unemployment rate to 9.6% (from 9.8%). GDP growth in the Eurozone came out at 1.8% - slightly higher than expected. Long-term inflation expectations for the Eurozone are continuing to normalize towards their historical average - due to e.g. higher energy prices - and are now around 1.8%.

Inflation expectations also increased in the US. The 5Y5Y inflation swap is now trading at 2.4% and ISM Prices Paid (a survey capturing inflation expectations) came out at 65.5, which is the highest since 2011. The so-called NFIB Small Business Confidence came out at 105.8, which resulted in the largest monthly increase in the survey since 1980.

Coinciding with fears of growing protectionism in the market, the Morgan Stanley Global Trade Indicator came out at the highest level since 2010, which also supported energy prices.

Signals of improved growth and higher inflation lead to a significant rise in European interest rates. German 10-year government bond yields increased 23 bps, and the overall portion of EZ government bonds with negative yields fell to 25% from 50% in September. US 10-year government bond yields were effectively unchanged.

## Energy continues to perform

**The Portfolio** The fund delivered a slightly positive return in January. Energy was the best performing sector in the portfolio followed by health care. Consumer staples and consumer discretionary were the two worst performing sectors.

The best performing position in the portfolio in January was a US pharmaceutical company that announced significant asset sales in January. This will increase the cash position of the company, which is positive for the bond. Another strong performing position was the oil service company that provides seismic surveys for major oil companies. The company continues to surprise the market through positive operational updates and positive market outlook for the seismic subsector. While several other seismic companies are struggling and are going through tough restructurings, this company stands out as the market leader with the most efficient vessels.

The worst performing position in the portfolio in January was a Kurdish oil producer. The company has problems with one of its oil fields that produces less oil than expected. However, the bond is still well covered by the cash flows so the equity has reacted much more negatively than the bond. The team still thinks that it is an attractive risk/reward position at current levels.

During January, two bonds were called. Furthermore, a bond in a car rental company was sold out completely in January as the team is worried about the secondhand values of cars.

[See performance and fund data](#)
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### 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.

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