

Value Bonds 2019 - 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 as well as the upcoming elections throughout the Eurozone.

That being 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 (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.

Strategy

Value Bonds 2019 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. At least 50% of the portfolio are invested in Investment Grade bonds. The maturity date of the Fund is December 31, 2019.

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 financials. Consumer staples and consumer discretionary were the two worst performing sectors.

The best performing position in the portfolio in January was again 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. Another strong performing position was a US pharmaceutical company that announced significant asset sales in January. This will increase the cash position of the company and is therefore positive for the bond.

The worst performing position and biggest driver of performance in January was the largest retailer in Croatia. The company was due to IPO and refinance its debt obligations in 2017. Poor equity valuations of retailers combined with negative headlines on the refinancing of certain loans resulted in bonds dropping in excess of 15%. We reduced our exposure prior to the repricing in anticipation of volatility but continue to hold just north of 1% in the bond.

During January, one bond was called. Furthermore, the weights in two existing high yielding positions were increased.

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

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