

## Investment Grade Value Bonds

FIXED INCOME

# Credit positive U.S. tax reform

## Higher rates dominated

**Markets** Credit spreads grinded tighter through January helped by solid economic fundamentals and demand for the asset class. However, the negative impact from rising American and European interest rates pulled down benchmark return to a negative 0.79 percent.

Personal & Household Goods, Telecommunications and Oil & Gas tightened the most, whereas Utilities, Retail and Food & Beverage, although tightening as well, did not keep up with the market.

We regard President Donald Trump's tax reform as fundamentally credit positive, as lowering the corporate tax rate to 21 percent from 35 percent and improved cash flow levels will benefit more than introduced limitations to the deductibility of debt payments. From a dynamic perspective, the latter also represent an incentive to avoid excessive financial gearing. Thus, the tax reform is clearly credit positive for U.S. based investment grade rated corporate bond issuers even though a material part of the available cash most likely will be used for shareholder remuneration in the form of buy-backs and dividends.

Eurozone credits also tightened throughout January in part due to the continued purchase program of the European Central Bank. We continue to find Eurozone credits fundamentally unattractive, as investors are compensated neither for the

risks associated with the Eurozone's intrinsic economic imbalances, nor for the risks stemming from independence movements, Brexit, migration, security threats and polarization of the European political landscape.

## Above benchmark

**The Portfolio** January's negative performance of 0.67 percent was 0.12 percentage points better than benchmark's negative return of 0.79 percent. This was in part due to the defensive attributions of the fund being positioned to weather and possibly exploit sell-offs related to the Eurozone's challenges mentioned in the market paragraph.

We remain cautious (i.e. underweight) on the Eurozone part of the credit universe for fundamental valuation reasons. The relative shortfall risk is capped by the very low absolute effective yields in this part of the investment grade universe and the likely phase out of the European Central Bank's monthly purchases of Eurozone credits, should a European rally occur. Thus, we continue to tilt the portfolio somewhat towards capital preservation.

The North American exposure fell to 51 percent from 53 percent partially due to profit taking in an American insurance company. Western European exposure increased to 26 percent from 24 percent helped by the purchase of a British bank. Holdings in the Asia/Pacific region remained at 15 percent.

Return is calculated gross of fees and excluding swing.

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

## Strategy

Investment Grade Value Bonds invests in global 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 2/3 of the portfolio are invested in Investment Grade bonds.

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