Sparinvest

Investment Grade Value Bonds

FIXED INCOME

The credit rally continued

Lower spreads and even lower rates

Markets July marked the seventh consecutive month of solid positive returns in credits. Benchmark return was 0.72 percent in July driven by credit spreads tightening and a sharp decline in leading U.S. and German government yields. This brings the year-to-date benchmark return to a whopping 7.73 percent.

In July, the best sectors within Investment Grade were Automobiles & Parts, Utilities and Personal & Household Goods, whereas Chemicals, Industrials and Media lagged the market.

Most important and awaited event of July was the Fed meeting, held on last day of the month. Fed reduced U.S. interest rates by 0.25 percent. The immediate market reaction implied that investors had been hoping for more stimulus and were therefore disappointed by chair Jerome Powell's suggestion that the move in interest rates did not signal the start of a "lengthy cutting cycle".

With little change in the outlook for the U.S./China trade tensions, investors focused on the Chinese economy in July. Growth data for second quarter highlighted the slowdown in China, but retail sales and industrial production data marked some tentative signs of stabilisation.

Brexit, the immigration issue and the political and economic challenges of the Eurozone remain sources of concern. Thus, we continue to view American fundamentals as relatively more appealing.

July ahead of benchmark

The Portfolio July's return of 0.84 percent was 0.12 percent higher than the benchmark (0.72 percent). Year to date the fund performance amounted to 7.51 percent, which is 0.22 percentage points behind the benchmark (7.73 percent).

In order to weather and possibly exploit sell-offs related to the Eurozone's challenges mentioned in the market paragraph, the fund is rather defensively positioned. This has not paid off so far, which is the main reason for the small year-to-date underperformance.

We remain cautious on the Eurozone part of the credit universe for fundamental and valuation reasons. Thus, the fund has an underweight in Germany and France, and has no exposure to Italy, Spain, Portugal and Greece.

In July, we reduced the exposure in a British tobacco company. Consequently, the Western European exposure fell to 29 percent from 30 percent. We increased the exposure in two leading Australian banks. This helped the Asia/Pacific holding to increase to 14 percent from 12 percent. Finally, we took profit in an U.S. transportation company and added two new names in the U.S., respectively a blue chip clothing and health insurance company. The North American exposure went up to 53 percent from 51 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.