Sparinvest

Value Bonds - Short Dated High Yield EUR R

FIXED INCOME

The credit rally continued

Fed disappointed the market

Markets Further spread tightening and interest rate declines generated positive returns in the credit markets in July. Thus, the benchmark showed a positive return of 0.36 percent for the month bringing the year-to-date return to 6.32 percent. An impressive return for a market that at the beginning of the year had an effective interest rate of around 3-4 percent.

In July, the best sectors within the short dated high yield market were Financials, Communication Services and Utilities, whereas Energy, Healthcare and Consumer Discretionary lagged the market the most.

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". The European Central Bank, the ECB, showed a slightly more aggressive stance and announced in July that it was looking at several easing measures, such as interest rate cuts and reinstating bond purchases.

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.

Positive return ahead of the market

The portfolio delivered a positive return 0.48 percent in July, which was 0.12 percentage points better than the benchmark. As a result, the fund is now behind its benchmark by only 0.23 percentage points for the year, but with an impressive return of more than 6.0 percent.

Energy and Industrials were the two sectors that provided the largest positive contribution to the month's return relative to the benchmark, while Financials and Real Estate were the worst contributors. In Industrials, the contribution came primarily from exposure towards transportation related companies and more specifically two Eastern European railway companies. Within Energy, the contribution came across the board. The negative contributions from Financials and Real Estate was primarily due to the portfolio's underweight to the two sectors, as both performed strongly in July.

During the month, the fund participated in two new issues, within Industrials and Healthcare. Six new names across several sectors were added and in addition, some individual positions were increased, while other positions that had reached their targets were reduced.

The changes did not have a significant impact on the fund's sector positioning, but reduced the cash position. Overall, the fund still has the same credit spread and a slightly lower duration compared to the benchmark.

Return is calculated gross of fees and excluding swing.

See performance and fund data Click here ›

Strategy

Value Bonds - Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.