

## Global Convertible Bonds EUR R

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# Strong quarter for IT

## Decling rates

**Markets** The end of March marked one of the strongest quarters in equity markets in recent years. With a 14.7 percent return in MSCI World (in euros), this was the strongest quarter in four years. The primary driver for the equity returns was probably the softer tones from both the U.S. and European central banks, which appear to have put further rate increases on hold in the imminent future.

Consequently, we have seen a large drop in market expectations for the short end of the curve. Despite strong equity markets, long rates across the regions also dropped heavily. German 10-year rates are now again negative and trading around -0.05 percent.

The U.S. yield curve inverted for the first time in a decade in March. So far, only the very short interest rates are higher than the 10-year rate – not to be confused with the normal spread between 2-years and 10-year rates. This is nonetheless a source of concern, since an inverted yield curve typically is seen as a reliable indicator for a recession within the subsequent 1-2 years.

Credit markets, however, were not negatively affected by the inverted yield curve. Both high yield credits and emerging markets government bonds posted strong returns in March, and the VIX index traded at quite low levels as well. Despite lower interest and credit sensitivity, convertible bonds significantly outperformed straight corporate bonds.

## Solid performance in March

**The Portfolio** returned 7.2 percent gross and 6.8 percent net of retail fees in the first quarter. Our underlying equities gained 14.4 percent in local currencies. It has been a satisfactory quarter placing us among the very best convertible bond funds this year – and since launch in 2016.

The biggest driver has been IT that has had a very strong quarter due to more optimism in the market, followed by Health Care and Materials. Our portfolio is well diversified on sectors and regions and we have been well positioned for the rally.

We are still seeing some headwind for value that is lagging 3 percent for equities and 1.5 percent when looking at convertibles. As mentioned in the latest newsletter, a large part of our holdings saw extraordinary pressure in 2018 and some of these have now rebounded. Consequently, we are now well ahead of our Morningstar peer group, which returned 4.9 percent year to date, but is lagging our benchmark, which returned 7.8 percent.

We saw 32 new issues in Q1 worth USD 17 bn, 6.3 bn of them from the U.S. and 3.2 bn from China. The biggest issuance came from Vodafone, which issued USD 2.5 bn placing Communication Services as the biggest issuance sector this quarter. There was a great activity from Chinese issuers where PC manufacturer Lenovo, electric car manufacturer Nio and Baidu's video streaming service iQiyi issued new convertibles.

Return is calculated gross of fees and excluding swing.

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

## Strategy

Sparinvest Global Convertible Bonds is a well-diversified global fund of convertible corporate bonds. Convertible corporate bonds are an asset class in the intersection between stocks and bonds that give some exposure to the stock market with a significantly lower risk than direct investment in the stock market. The strategy utilizes long-term factor premiums such as value, low debt and small cap. These are investment styles that, with certain fluctuations along the way, have historically delivered a long-term excess return compared to investments in the entire market.

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