

## Value Bonds 2018 - 50/50

FIXED INCOME

# Slightly positive return in May

## Global economy is slowly improving

**Markets** Although positive sentiment continued in May, markets could not keep up the pace from April's rally. While high grade markets were more or less flat on the month, high yield was slightly better with a positive return of 0,5%

Risky assets remain to be in the focus of investors, fueled by rise in commodity prices and continuing signs of a slowly and controlled improving global economy. Oil prices surged another 10% in May, primarily as a consequence of declining US inventory and global production.

In Europe, Brexit is still making headlines as we move closer to a referendum date on 23rd June. The inconclusive polls are challenging for UK asset pricing and a major source of short-term volatility. Our biggest concerns around the Brexit are actually for the remaining EU members, especially the Eurozone members.

The next fed hike is the other big catalyst ahead for credit markets and not least important for emerging markets. In EM, Latin American is the focus, where we are seeing acceleration of corruption investigations in Brazil following recent pleas and continued deterioration of the situations in Venezuela.

## Positive performance

**Performance** The fund delivered a satisfactory positive return in May. The energy sector was once again the best perform-

ing sector in the portfolio as the oil price continued to rebound. Financials was the second best performing sector, whereas information technology and utilities were the two worst performing sectors.

The best performing position in the portfolio in May was Kurdish oil producer that benefitted from the oil price rebound and the fact that the company received payments from the Kurdish Regional Government according to the plan. Another strong performing position was a US consumer company that provides automated retail solutions. The company reported stronger earnings than expected and bought back some of its own bonds.

The worst performing position in the portfolio in May was a major IT company. The company has been bought by another major IT company with lower credit rating. The transaction is going to be financed primarily with more debt and has not been completed yet. The market fears that the new combined company will have too high leverage compared to the existing company. On the positive side, we note that the company has a very high and stable cash flow stream that should be able to pay back the debt over time. Another weak performing position was a UK energy company.

## Two positions called

**Portfolio Changes** During May, one new position was added to the portfolio and a couple of positions were rebalanced. Two positions were called and three positions were sold completely during May.

### Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by investing in short-dated corporate bonds – with a mix of 50% High Yield and 50% Investment Grade. The selection process is based on in-house bottom-up research with focus on companies with strong cash flow. Our approach also makes it possible to exploit market premiums from less liquid issues and out of favour companies.