

Value Bonds - Short Dated High Yield EUR R

FIXED INCOME

Risk willingness on retreat

Trade war triggered weak sentiment

Markets were weak during May, as the risk willingness was on retreat. Short dated high yield corporate bonds followed suit as credit spreads widened almost 70 basis points and posted the first monthly loss since December. The benchmark thus showed a negative return of minus 0.80 percent for May bringing the year-to date return to 4.35 percent.

The change in risk appetite was primarily driven by Trump's trade war with China. Trump increased tariffs to 25 percent on 200 billion USD worth of imports from China. Furthermore, there is focus on military tensions in the South China Sea, which is involving a number of South East Asian nations including Taiwan.

Equity markets had a tough month and bond markets also showed the change in risk appetite. The U.S. 10-year rate dropped by 0.37 percent to 2.13 percent, which was the lowest since 2017. German government bond rates also dropped significantly, while government bonds yields in Southern Europe were largely unchanged. Oil prices dropped by 16 percent, which was the biggest drop since November and resulted in Energy being the weakest sector in the benchmark.

The fear in markets is not caused by a rapidly deteriorating economy, since growth figures across the major regions are still tolerable. The fact that a yield curve inversion is moving closer in Europe is thus a recognition that a recession is moving closer after all. The leading indicators for the major regions are continuing to drop, but this happens at a somewhat slower rate.

A good month relative to the market

The portfolio delivered a negative return of 0.26 percent in May, which was 0.54 percentage points ahead of the benchmark. As a result, the fund was 0.01 percentage points ahead of the benchmark year-to-date.

In spite of the weak markets in May, most sectors contributed positively to the fund return. In contrast to that, most sectors contributed negatively to the benchmark return. Communication Services and Industrials delivered the highest contributions to the fund return, while Industrials and Energy delivered the highest contributions compared to the benchmark. The contributions from both Industrials and Energy were broad based and within each sector, several of the benchmark positions came under pressure and delivered weak returns in May. Utilities and Real Estate had the worst contribution compared to the benchmark. However, the combined contribution from these two sectors compared to the benchmark was just 0.00 percentage points and therefore negligible.

During the month, five bonds were exited and two bonds were reduced as they reached their fair spread. The proceeds were used to buy five new positions and to add in four existing positions.

The fund continued to have a slightly defensive positioning in companies with strong balance sheets. The overall spread of the fund was slightly lower than the benchmark while the duration of the fund was also lower than 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.

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