

## Value Bonds 2018 - 50/50

FIXED INCOME

# Interest rates on the rise

## Markets waiting for election day

**Markets** As election day in the US is getting closer, markets seems to be holding its breath. Whereas Clinton had a decent lead in beginning of October, the Trump Camp gained significant ground during the last couple of weeks, leaving the contenders very close. As a consequence, markets have definitely become more nervous, with less trading and more intraday volatility. Estimates of the financial impact of the election varies in magnitude and size. One thing everyone agrees to, is that the impact of Trump elected president will be more significant on the financial markets.

During the month of October, macroeconomic releases were generally better than expected for the Eurozone and after a long period of the declining rates, the European government bonds increased approx. 0.25 percentage points in October.

In the US, key figures were somewhat weaker and generally disappointing. The US unemployment rate increased to 5.0%, which is the highest since April, but this was primarily caused by an increase in the number of job seekers. Initial Jobless Claims remained at the lowest level since the 60s.

Despite the overall key data, EUR dropped about „5% compared to the dollar. The reason is probably more speculation that the FOMC is going to hike interest rates in the near future (even this year).

Although agreed to cut oil production, OPEC members are still struggling to formalize the deal internally, which prevents them from reaching an agreement with members outside OPEC.

## Energy performs again

**The Portfolio** The fund delivered a satisfactory positive return in October. Energy was by far the best performing sector in the portfolio followed by materials. Health care and utilities were the two worst performing sectors.

The best performing position in the portfolio in October was the usual high beta position in the portfolio - the oil service company that provides seismic surveys for major oil companies. In the beginning of the month the company published a very positive profit warning and the equity price rose 25% on the news. End October the company reported its Q3 numbers. The company is the strongest in the sector with the most cost efficient vessels. The team recently met the company and remains very confident about the position. Another strong position was an energy E&P company.

The worst performing position in the portfolio in October was a US pharmaceutical company that develops and distributes drugs. The company was accused of fraud last year, which was very negative for the bonds. In October the news was that US prosecutors are looking at the company's former CEO and former CFO. Following this news, the equity price dropped 12% and the bond price dropped 3%. Despite of the bad news, the team remains confident in the position, as the company is still generating cash and have the possibility to divest assets. Another weak performing position was a US homebuilder.

During October, two position was sold and several positions were increased in order to reduce the cash balance.

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

## Strategy

Value Bonds 2018 50/50 invests in short-dated 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. Up to 50% of the portfolio are invested in Investment Grade bonds and up to 50% in High Yield. The maturity date of the Fund is December 31, 2018.

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