Sparinvest

High Yield Value Bonds Short Duration 2018

FIXED INCOME

# European economy strengthening

## ECB reducing monetary stimulus

**Markets** In October credit markets continued the positive streak that has characterized most of 2017. Macroeconomic figures released during the month supported the broadly accepted perception of self-sustainable economic growth.

The big monetary policy event of the month was the ECB meeting, where Draghi announced the extension of QE to September 2018, although lowering the purchase to EUR 30 billion from January. An acknowledgement of the solid growth apparent in the Eurozone, but it also leaves the door open for further adjustments. Despite downsizing the monthly bond purchases, sovereign bonds in the region gained 1.1 percent over the month. Inflation readings in the Eurozone will be crucial for the QE outlook, given the unexpectedly cooler headline inflation release in October of 1.4 percent for September's year on year figure.

In the U.S., unemployment fell further, reaching 4.2 percent - a level last matched in February 2001. Non-farm payrolls dipped significantly, as the data showed 33,000 fewer jobs for the month compared with the more than 150,000 added in August. Hurricanes Irma and Harvey had a significant impact on numbers, thus markets expect to see a bounce-back next month. Although non-farm payrolls fell, the underlying labor market remained healthy and showed signs of improving salaries.

The leading indicators are still showing that we can expect decent growth over the coming months. However, the U.S. economy will most likely decelerate somewhat after year-end.

## Banks driving performance

**The Portfolio** The fund provided a positive return of 0.22 percent in October, which was very impressive compared to the duration of the portfolio. The broader High Yield market with a duration of 4.5 ended the month just shy of 0.5 percent. Year to date the fund reached 2.87 percent.

The uptick in South European economies resulted in Financials being the main driver of performance. Highest contribution came from our position in Spanish bank that despite the Catalan conflict rose with more than 2.0 percent during October. Energy came in second in terms of contribution to return, fueled by the approx. 5.0 percent increase in oil prices. The worst performance was recorded in a U.S. restaurant operator that came out with softer-than-expected Q2 results and weak execution of a term loan refinancing. On this basis, we decided to exit the position.

In October, one position was called and one matured. Besides exiting the mentioned U.S. company, we also reduced our position in three other names. No new positions was added during the month.

We are very careful to balance the risk budget of portfolio with the short maturity, so are mainly targeting new investments with ratings of BB or better.

Return is calculated gross of fees and excluding swing.

See performance and fund data Click here ›

## Strategy

High Yield Value Bonds Short Duration 2018 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. At least 2/3 of the portfolio are invested in High Yield bonds. The maturity date of the Fund is December 31, 2018.