Sparinvest

Value Bonds – Global Ethical High Yield

FIXED INCOME

Central bank easing continued

Oil prices affected by Saudi attack

Markets September was a positive month in high yield, which saw further spread tightening of approx. 20 basis points. The benchmark showed a positive return of 0.27 percent, which brought the year-to-date return to 8.79 percent.

At the press conference in September, the European Central Bank (ECB) announced new monetary easing and Draghi criticized European politicians for not having done enough to deliver structural reforms. He even indicated that the effectiveness of monetary policy was rapidly on the decline and that negative side effects were becoming more prevalent. The fact that Draghi was highlighting the potential inefficiency of monetary policy disappointed sovereign bond traders, which as a reaction sent government yields higher. Risk willingness was present in most risk assets including corporate debt markets, which saw some volatility, but in general, lower credit spreads at the end of the month.

All sectors contributed positively to the benchmark during the month with Utilities being the largest positive contributor ahead of Consumer Staples as Argentinian Utility bond prices rebounded significantly. Healthcare had the lowest contribution after Energy kept down by pharmaceuticals affected by the U.S. opioid crisis.

Oil prices were quite volatile in September. The oil price increased 15 percent overnight after a drone attack on key facilities in Saudi Arabia causing large disruption to world supplies only to decline to unchanged for the month as the path to full production was shorter than initially expected. The Energy sector saw the same price development and ended just in positive territory after a very though previous month.

Positive return, slightly ahead

The Portfolio delivered a positive return of 0.33 percent in September, which was 0.07 percentage points ahead of the benchmark. As a result, the fund is now behind its benchmark by 0.34 percentage points year-to-date.

Energy and Industrials were the two sectors that provided the largest positive contribution to the month's return relative to the benchmark, while Financials and Communication Services were the worst contributors. In Energy, the contribution came primarily from a U.S. oil & gas company that was positively affected by the increasing natural gas prices during the month on the back of significant price decreases during 2019. The positive contribution from Industrials came from a container company, which managed to refinance its bank debt with a new maturity date after the maturity date of the bond. In Financials, it was the position in a U.S. supplier of student loans that contributed negatively after having done very well so far in 2019. The negative contribution from Communication Services came primarily from a U.S. supplier of telecom, broadband, and television. The bonds traded down on worries about how a potential restructuring of the company will affect the bondholders.

During the month, the fund sold six positions, reduced in six names and one was called. The proceeds from this were invested in eight new names and several existing positions.

The changes did not have a significant impact on the fund's sector positioning. Overall, the fund has a higher credit spread and a slightly lower duration compared to the benchmark.

Return is calculated gross of fees and excluding swing.

See performance and fund data Click here ›

Strategy

Ethical High Yield Value Bonds invests in global 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. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.