Monthly commentary / 31.07.2020
Vontobel Asset Management

Vontobel Fund - Global Corporate Bond Mid Yield

Approved for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LU, NL, NO, PT, SE, SG (Professional Investors only)

Market developments
Risk assets had a solid start to Q3 and credit spreads were well supported across most market segments. Government bond yields continued to remain low as investors put cash to work. In the US, 10-year Treasury yields fell another 13 basis points and real yields hedged lower as a consequence, supporting risk-seeking behaviors. Despite historic Q2 GDP declines – -32.9% quarter-on-quarter in the US and -12% in the Eurozone – investors' attention quickly turned towards the economic lift driven by consumers heading into Q3. EU leaders reached a mutual agreement to support struggling member states with a 750 billion euro (around 5% of EU-27 GDP) financial package. Meanwhile, a new US fiscal package is under discussion against a backdrop of the upcoming presidential election (Democrat contender Joe Biden showing a several percentage points lead vs incumbent Donald Trump in recent polls). Brexit negotiations continue, but with little groundbreaking progress being recorded. The Covid crisis trundles on with significant first round effects also in Latin America and India, and second round effects flaring up in Europe, Asia, and Australia. Geopolitical tensions continued to ratchet up between the US, its allies and China with tit-for-tat closures of consulates, and corporate and individual sanctions.

Regarding central banks, the US Federal Reserve announced at its last meeting that all lending facilities currently active, will be extended by three months until the end of the year and Chairman Powell reinforced the importance of the evolution of the virus for the economic outlook and highlighted the need for further fiscal and monetary support. A strong supporting factor remains the Corporate Credit Facility (CCF), which made the Fed become an active participant in the primary, and in particular, the secondary market by buying corporate bonds (even including BB rated companies).

In global corporate bonds, credit spreads over the course of July continued to tighten, driven by ongoing inflows and investors' healthy appetite for corporate bonds. As a result, global corporate bond spreads tightened 19 bps to 140 bps. From a regional perspective, both, US-dollar corporate bonds and euro corporate bonds had a solid month. Due to the summer lull, new issue activity slowed down, and the Q2 reporting season started in mid-July.

Portfolio review
During the month of July, we were less active in new issues as general market activities dried up and, therefore, focused more on the secondary market. In particular, we added to our exposure across sectors such as in technology, telecommunication and insurance. In addition, we optimized the spread in some names where for example the US-dollar bond of an issuer traded at a more attractive price than its euro equivalent, considering hedging costs. At month end, we remain (unchanged) overweight the telecommunications, insurance, and media sectors; and underweight capital goods, transportation, and retail. Our regional exposure changed modestly as North American exposure ticked up one percentage point to 49%, while our European exposure ticked down 2 points to 36%. Emerging markets (hard-currency only) and Asia Pacific holdings were unchanged at 10%, with the remainder in the cash position.

Performance analysis
The fund's performance came in just above its reference index. Spreads continued to tighten in the month of July driven by healthy investor demand (~40 billion US dollars in global investment-grade inflows) and helped by muted issuance. On a sector level, the outperformance of the fund can be attributed to positive credit selection in healthcare, technology, and consumer goods while utilities, real estate, and financial services had a negative contribution. On a sector allocation basis, the positive contribution from insurance and telecom offset the negative contribution from consumer goods and transportation. From a regional perspective, our exposure to Western Europe had a strong positive contribution to performance, while our exposure in North America had a negative contribution. In addition to inflows in the strategy, the positive absolute performance of the fund during July helped boost assets under management up to around 560 million (in US dollars).

Outlook

For the coming months, our more cautious view on our macroeconomic environment remains unchanged. A strong contraction of economic activities have materialized due to temporary shutdowns, but we believe it should be relatively short-lived, and we would not be surprised if 2021 sees solid growth in the mid-single digits for most economies (a “swoosh” recovery). The combination of global central bank support mechanisms and substantial fiscal policy efforts around the globe should definitely be supportive for developed markets. In terms of new issues, during the summer break, we expect a deceleration in new issuance to drive further spread tightening in the secondary market and more activities in September. The Q2 reporting season so far presented slightly better results than feared and we will continue to monitor results closely. Nevertheless, the broadly favorable technical backdrop sets a strong foundation for global corporates and continues to encourage solid inflows by investors. Despite some significant tightening in recent months, we believe valuations for global corporate bonds remain attractive and we continue to be active in uncovering market dislocations across sectors and optimizing our credit exposure.

Performance (in %)

Net returns

USD	Fund	Index
MTD	2.6	2.6
YTD	6.2	6.1
2019	13.6	12.5
3 years p.a.	6.6	6.4
5 years p.a.	n/a	n/a
10 years p.a.	n/a	n/a
Since launch p.a.	6.4	5.9
Launch Date		09.05.2016

Rolling 12-month net returns

Start date	End date	Fund	Index
01.08.2019	31.07.2020	9.2	8.8
01.08.2018	31.07.2019	10.2	10.0
01.08.2017	31.07.2018	0.6	0.5
01.08.2016	31.07.2017	3.7	2.0
01.08.2015	31.07.2016	n/a	n/a

Index: ICE BofAML Global Corporate Index Hedged USD (G0BC)

Share class: I
ISIN: LU1395537134

Past performance is not a reliable indicator of current or future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.

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