Monthly commentary / 31.08.2020
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 continued to perform strongly during the month of August, such as the US equity markets (Nasdaq and S&P) repeatedly achieved historic highs over the month. Credit, periphery and emerging market spreads all tightened with the latter outperforming. High yield delivered greater spread tightening than investment grade.

An interesting point is the behavior of global nominal rates, which rose this month. Long ends of the curve were particularly under pressure creating a bear steepening effect, "in line" with a scenario of normalization in growth and inflation. Nevertheless, real rates continued to come down whilst inflation break evens climbed significantly. There appear to have been multiple drivers of the movements described. On the one hand, economic data continued to surprise positively, such as US employment, although rolling over a bit towards the end of the month.

The virus situation looks to be stabilizing in the US sunbelt whilst the epicenter seems to have moved to India. The number of cases in Europe looks to be rising once more but mortality rates are not spiking. Russia did, however, announce regulatory approval for a vaccine, other "Western" alternatives appear to be advancing. The risk of blanket lockdowns looks low and so Northern Hemisphere governments are moving to re-open schools (and offices to a certain extent). This should in turn support growth and with a degree of optimism about a vaccine, is supportive of risk assets.

At the same time, central banks remain accommodative in terms of liquidity provision. Of special interest was the speech of Mr. Powell at their annual Jackson Hole Symposium that was held in a virtual mode this year. The opening remarks are of key importance as it establishes the direction of the US Federal Reserve's monetary policy for at least 12 months and beyond. Chairman Powell delivered revisions to the Longer Run Goals that were extremely dovish and likely to support the recovery. Fiscal stimulation in the US remains elusive, as Democrats and the GOP appear wide apart, negotiations on the new 1-2 trillion US dollar package to be restarted in September after the summer recess.

In global corporate bonds, credit spreads over the course of August continued to tighten, although at a slower pace compared to previous months. As a result, global corporate bond spreads tightened 7 basis points to 132 bps. From a regional perspective, euro corporate bonds outperformed US dollar and pound sterling corporate bonds during the month. Due to the summer lull, new issue activity slowed down a bit (more so in Europe versus the US) but should increase again during September.

Portfolio review
During August, new issue activity was particularly robust in the first half of the month. As a result, we added to our exposure across sectors such as financials, telecom, and energy. In the secondary market, we topped up exposure in less-exposed sectors like building materials, consumer goods, and energy, where we continue to see value, and sold a few names in financials that had started to trade rich. At month end, we remain (unchanged) overweight the telecommunications, technology, and insurance sectors and underweight capital goods, transportation, and retail. Our regional exposure changed modestly as North American exposure ticked up three percentage points to 52%, while our European exposure remained unchanged at 36%. Emerging markets (hard currency only) and Asia Pacific increased two percentage points to 12%, with the remainder in the cash position.

Performance analysis
The fund's performance was ahead of its reference index during the month. The outperformance was mainly generated by positive credit selection and less so by allocation. On a sector level, the outperformance of the fund was wide spread across various sectors. It can be attributed to positive credit selection in particular to sectors such as energy, banking and insurance while utilities and retail had a negative contribution. On a sector allocation basis, the outperformance contribution was quite small for the

month of August. From a regional perspective, our exposure to Western Europe (in particular France) had a strong positive contribution to performance, while our exposure in North America also had a positive contribution but to a smaller extent. Additional inflows into the strategy helped to boost assets under management up to around 580 million US dollars.

Outlook

Following our Q3 global corporate bond market outlook, we kept a slightly more cautious view on macroeconomic developments. A strong contraction of economic activities has materialized due to temporary shutdowns, but we also believe it should be relatively short-lived, and we would not be surprised if year 2021 sees solid growth in the mid-single digits for most economies (swoosh recovery). The combination of global central bank support mechanism and substantial fiscal policy efforts around the globe should remain supportive for developed markets also going forward. In terms of new corporate bond issues, we expect an acceleration in September following a rather quiet summer period. The Q2 reporting season presented better results than feared although expectations have been lowered significantly beforehand. Nevertheless, the 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			Rolling 12-month net returns			
USD	Fund	Index	Start date	End date	Fund	Index
MTD	-0.5	-0.7	01.09.2019	31.08.2020	6.3	5.6
YTD	5.7	5.3	01.09.2018	30.08.2019	12.3	12.0
2019	13.6	12.5	01.09.2017	31.08.2018	0.4	0.2
3 years p.a.	6.2	5.8	01.09.2016	31.08.2017	3.5	2.1
5 years p.a.	n/a	n/a	01.09.2015	31.08.2016	n/a	n/a
10 years p.a.	n/a	n/a	Index: ICE BofAML Global Corporate Index Hedged USD (G0BC)			
Since launch p.a.	6.2	5.6				
Launch Date		09.05.2016	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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Past performance is not a reliable indicator of current or future performance.
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