Monthly commentary / 30.06.2020
Vontobel Asset Management

Vontobel Fund - Value Bond

Approved for institutional investors in: AT, CH, DE, ES, GB, IT, LI, LU, NL, PT, SE, SG (Professional Investors only)

Market developments
A broadly robust month for risk assets to top off a scorching second quarter. Equities posted gains across the board and credit spreads tightened in both EM and DM. Periphery spreads, especifically in Italy, were well supported. Commodity prices were also well bid. With the pandemic situation remaining worrisome however, in particular in the US and renewed outbreaks in Australia, China, Iran and numerous European countries, safe haven assets also remained bid. Treasury yields fell slightly, gold was in demand and equity implied volatility as measured by the VIX was on the rise.

Overall, US assets lagged somewhat this month. S&P and US HY ran behind European and emerging equivalents, and the Greenback was overall soft. Given that economic surprises in the US reached all-time highs, suggesting that data flow came in consistently above low expectations (implying that the economic hit could be less than expected), it was most potentially the deterioration in the health situation in several of the southern US states which weighed on investor preferences.

Markets continue to be backstopped by significant central bank liquidity injections and expansive fiscal policy. On the former, the Bank of England was a recent addition to the long line of central banks expanding their balance sheet, adding an extra £100bn. Earlier in the month, the ECB announced another 600bn EUR addition to its PEP programme. The Fed reiterated near zero rates until the dual mandates are respected once again, and would keep purchases “at least at the current level”, effectively putting a floor on the minimum purchases with an option to increase if necessary. On the fiscal front, both Germany and Spain added sizable new programs. At the European level, the projected 750bn EUR European recovery fund progresses and will be up for debate again at the next EU meeting mid-July.

Whilst economic surprises have been particularly robust such as retail sales and non-farm payrolls, the absolute level of economic activity remains under stress. In its latest report, the IMF revises global growth in 2020 downwards by just short of 2%. GDP contraction is expected at -4.9% this year, of which a -8% contribution comes from DM. Somewhat sobering.

Elsewhere, we observed a few headlines about Sino-US trade relations but the latest tweets by the President Trump were not inflammatory. Concerning M. Trump, and specifically the presidential elections, preliminary polls point to a sizable lead for candidate Biden over the incumbent. In Asia, we observed a renewed flare up in border tensions between China and India as well as between the Korea’s whilst China passed new security laws concerning Hong Kong at the end of the month drawing sharp criticism from the West. Back to Europe, Germany had its “Enron moment” with the Wirecard fraud whilst the Brexit show, after a couple of months pause, is back on the screens.

Portfolio review
Currently, the fund is positioned to generate carry but also capital gains that should come as the spread available in credit markets continues to tighten. The carry is at around 1.50% in CHF terms, the duration at around 2.5 years. We remain positioned where the carry is attractive compared to fundamentals and where the central banks or fiscal authority backstop against the risk of downside volatility. This is the case in the European periphery, financials and insurances. The recent profitable allocation made to Investment Grade in Europe is being progressively reduced, as the risk premium is diminishing. As we enter the summer period, risk in the fund is being reduced slightly, via allocation of cash. We wish to hedge against events that could distract from the long-term normalization trajectory.

Performance analysis
The portfolio delivered a positive absolute performance. Performance was mainly driven by tightening in credit spreads as our preferred segments of the market performed well, especially HY markets. Rates performance was somewhat neutral in a market lacking volatility and any major trends.

Outlook
We believe that Central Bank and fiscal authorities are now in a position to avoid another market meltdown (comparable to the one we saw in March).

In our opinion, the US recovery is overpriced by certain markets (i.e. equities and certain HY names) especially judging from latest health news (increasing infection numbers). The EU recovery however should be stronger compared to other developed market countries. For example, stimulus from EU and ECB has been quicker and more efficient. From a health point of view, the EM situation could well be worse, but the economic impact should be more contained, as illustrated by the IMF outlook.

The market is already in a phase of rapid normalization. The long period of compression of spreads we saw prior COVID-19 has resumed at a very strong pace. The low hanging fruit have been picked but there remain numerous pockets of value in spreads markets, which should be supported by the unprecedented liquidity injections from G20 central banks.

Developed market treasury yields should remain at low levels. Currencies could remain one of the few means for some countries to reboot their economies.

We do expect markets will remain volatile for some time (i.e. second wave risks, China-US tensions, US elections, volatility in macro data vs liquidity injections) which will favor active/ flexible strategies in the forthcoming period.

Performance (in %)

Net returns			Rolling 12-month net returns			
CHF	Fund	Index	Start date	End date	Fund	Index
MTD	1.4	n/a	01.07.2019	30.06.2020	1.3	n/a
YTD	0.0	n/a	01.07.2018	28.06.2019	2.7	n/a
2019	4.7	n/a	01.07.2017	29.06.2018	-0.7	n/a
3 years p.a.	1.1	n/a	01.07.2016	30.06.2017	-1.3	n/a
5 years p.a.	0.1	n/a	01.07.2015	30.06.2016	-1.6	n/a
10 years p.a.	0.3	n/a	Index: n/a			
Since launch p.a.	0.8	n/a				
Launch Date		07.01.2009	Share class: I ISIN: LU0278084842			

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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