

Monthly commentary / 31.07.2020
Vontobel Asset Management

Vontobel Fund - Sustainable Global Bond

Approved for institutional investors in: CH, DE, IT, LU

Market developments

In July, US growth figures for Q2 have been published at -9.5% quarter-on-quarter, the euro zone's at -12% with Spain lagging at a whopping -18%. China came in with a positive performance in its Q2 growth rate, having taken its hit in Q1 rather. Nevertheless, risky assets had a solid start to Q3 when measured in local currencies. Credit spreads specifically were well supported across developed and emerging markets. Indeed, US high yield out-performed across the board in the credit space as government bond yields continued to remain low and investors put cash to work. In the US for example, 10-year Treasury yields fell another 13 basis points. Somehow surprisingly, during July, inflation break evens actually increased over 20 bps in the US, suggesting that the market is extrapolating higher inflation going forward, most probably due to the recent and significant money supply acceleration to counter the effects of the Covid crisis. Real yields hedged lower as a consequence, supporting risk seeking behaviors. Ten-year UK Gilts touched an all-time low at 10 bps towards month end.

Portfolio review

Interest rates: We have a slightly lower duration in the portfolio compared to the reference index, which comes mainly from our underweight in Japan. With the Japanese market exhibiting a very unattractive risk-return profile, we maintain an underweight there. In US dollars, we have a slightly higher duration due to our long US Treasury exposure.

Credit: We are overweight in corporate bonds. We continue to favor defensive sectors like health care, communication and technology. We are overweight financials, especially banks.

Country: We have an underweight in German government bonds as we don't buy bonds with a negative yield. For carry reasons, we have an overweight in Italy and Spain through positions in corporates, financials, and sovereign issuers.

Currency: Currency risks are fully hedged.

Performance analysis

The performance of the fund was positive in July and outperformed the reference index. The biggest positive contribution comes from the recovery of credit spreads. Contribution from duration was slightly negative as we have an underweight at the very long end of the yield curve.

Outlook

In our main scenario, we expect the global economy to recover gradually but quite quickly. Hopefully, a moderate course of the pandemic should encourage consumers to make purchases. The central banks will continue to keep interest rates low, although US Federal Reserve Chair Jerome Powell is likely to continue to resist lowering the Fed Funds Rate below zero. Governments will continue to support the economy with special programs. The US presidential elections are likely to be the main feature of the autumn and the election campaign could also have an impact on the economy, especially on the relationship between the economic superpowers USA and China.

Performance (in %)

Net returns	Rolling 12-month net returns					
	Fund	Index	Start date	End date	Fund	Index
EUR						
MTD	1.3	1.0	01.08.2019	31.07.2020	3.8	4.2
YTD	4.1	4.1	01.08.2018	31.07.2019	4.3	5.3
2019	4.4	5.1	01.08.2017	31.07.2018	-1.9	-1.1
3 years p.a.	2.0	2.8	01.08.2016	31.07.2017	-1.7	-2.5
5 years p.a.	1.8	2.3	01.08.2015	29.07.2016	4.5	6.0
10 years p.a.	n/a	n/a	Index: Bloomberg Barclays Global Aggregate Bond Index Hedged			
Since launch	2.0	2.5	EUR			
p.a.						
Launch Date		30.06.2015	Share class: I			
			ISIN: LU1246874629			

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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