Vontobel

Monthly commentary / 30.8.2024

Vontobel Fund – Global Corporate Bond

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

Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

Market developments

August was a highly volatile month, with the VIX Index briefly spiking to levels not seen since the onset of the Covid-19 pandemic in March 2020. The volatility was triggered by a weaker-than-expected US jobs report, which heightened concerns about a potential economic downturn in the United States. This, combined with an unwinding of the yen carry trade - a strategy where investors borrow in yen to invest in higher-yielding currencies - led to significant instability, particularly in Japanese markets. On August 5, the TOPIX index plummeted by over -12 percent in a single day, and the TOPIX Banks index fell by -17.3 percent. This market crash reverberated globally, pushing the VIX index to an intraday peak of 65.73, its highest level since March 2020. The S&P 500 also suffered, declining by -3 percent on the same day, its worst performance since September 2022.

However, markets began to stabilize after August 5, aided by more encouraging economic data from the US and reassuring comments from central bankers. Initial jobless claims released on August 8 were lower than expected, alleviating some fears of an imminent recession. The retail sales figures for July were also robust, further boosting market sentiment. Additionally, BoJ Deputy Governor Uchida's statement that the bank would not raise rates during periods of market instability helped calm the situation in Japan.

Later in the month, Fed Chair Jerome Powell's speech at the Jackson Hole Symposium played a pivotal role in restoring investor confidence. Powell signaled a dovish stance, indicating that the time had come for monetary policy adjustments and stating: “We do not seek or welcome further cooling in labor market conditions”; implying that the Fed stands ready to fight any weakness in the labor market. This dovish outlook was further supported by a favorable US Consumer Price Index (CPI) report, which showed core inflation falling to 3.2 percent, the lowest since April 2021. These developments solidified expectations that the Fed is likely to cut rates in September, possibly by as much as 25 to 50bps, depending on incoming economic data.

As a result, equity markets rebounded by the end of August, with the S&P 500 gaining +2.4 percent, marking its fourth consecutive monthly gain. European markets also fared well, with the STOXX 600 up by +1.6 percent. However, Japan's Nikkei 225 underperformed, declining by -1.1 percent due to the earlier turmoil. Emerging markets also saw gains, with the MSCI Emerging Markets Index rising by +1.6 percent.

In the fixed income and credit markets, total returns were generally positive, driven by heightened expectations of rate cuts and tighter spreads. US Treasuries posted a +1.3 percent gain, while Euro sovereign bonds increased by +0.4 percent. Global corporate bond spreads widened slightly by +1bps, with regional divergences. EUR Investment Grade (IG) spreads widened by +4bps; while USD IG spreads outperformed, tightening by -2bps. Higher-beta segments outperformed, with Global BBs tightening between -6 and -10 bps depending on the currency, and EUR Additional Tier 1 (AT1) bonds tightening by -9bps.

Portfolio review

Market activity in the primary market in August was slightly down after what was an unusually busy month of July. We were also less active in primary and only participated to a handful of new deals in the Auto and Banking sectors. In Banking, we seized the opportunity of an attractive new Dutch issue to realize a switch out of an existing bond from the same issuer to improve the yield of the fund.

In the secondary market, we were active at reducing exposure in two names that were facing setbacks in the Technology and Media sectors. We also reduced our exposure in a French Restricted Tier 1 (RT1) bond where we are happy to reallocate to larger AT1 issuers as we think they are offering a lower risk profile in the current environment. We implemented two switches in the Telecommunications and Banking sectors replacing the existing bonds with new bonds from the same issuers, at a more attractive spread. We also increased our exposure in USD-denominated Senior issues from credits we favor fundamentally in the Telecommunications, Insurance and Banking sectors.

Performance analysis

For the month of August, the fund performed broadly in-line with its reference index, net of fees but with a total return in USD (net of fees) of close to 1.2 percent.

The contribution from credit selection was overall flat for the month. Our bond selection in Banking, Telecommunications and Utility contributed positively. This was offset by our negative contribution in sectors such as Healthcare, Energy and

Real Estate. The contribution from sector allocation was overall flat. The positive contribution from sectors such as Automotive (UW), Capital Goods (UW) and Technology (UW), being offset by a negative contribution from Banking (OW), Transportation (OW) and Telecommunications (OW).
In terms of regional exposure, the major part of the outperformance came from Europe and North America, while EM and APAC (ex-EM) had a negative contribution.

Outlook

The month of September can get more interesting than normal: while the Fed has postponed a rate cut during its August meeting, a rate cut in September seems very likely now, potentially marking the beginning of a much-anticipated rate-cutting cycle. This view is supported by weaker economic data recently in the US, particularly in the labor market, causing a significant re-pricing in the global rates market. We expect the release of new macro data to keep rates volatility high for September. According to the current market pricing, about four rate cuts are expected by the Fed for the remainder of the year, which we believe is ambitious.
Turning to corporate fundamentals, the Q2 2024 reporting season broadly confirmed the solid trend but also with some more mixed results for specific credits. Overall, credit fundamentals remain robust, helping to reassure investors in their allocation towards corporate bonds going forward. Rating upgrades are expected to continue, albeit at a slower pace than in 2023. More specifically, we expect the BBB-rated companies to continue with a favorable momentum of rating upgrades.
Regarding the technical drivers of the market, such as supply and demand, we expect them to remain supportive. On the one hand, the new issue activity should slow down towards year-end, while September could still be quite busy after the summer break. On the other hand, investor`s appetite is expected to remain healthy, as the demand for higher-yielding corporate bonds. With the Fed rate cutting cycle about to start during the month of September, the duration contribution should play a more prominent role in corporate bond portfolios going forward. The running yield (carry) of global corporate bonds remains at high levels. For more details on our current outlook, please join our webinar on September 17th, to see our new market outlook, published in the second half of the month.

Fund characteristics

Fund name	Vontobel Fund – Global Corporate Bond
ISIN	LU1395537134
Share class	I USD
Reference index	ICE BofAML Global Corporate Index (USD hedged)
Inception date	9.5.2016

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	1.2%	1.2%
YTD	4.1%	3.9%
1 yr	10.6%	9.5%
3 yrs p.a.	-1.6%	-1.2%
5 yrs p.a.	1.0%	0.9%
10 yrs p.a.	–	–
ITD p.a.	3.0%	2.7%

Time period	Fund	Ref. index
2023	8.8%	8.9%
2022	-15.0%	-14.0%
2021	-0.6%	-0.8%
2020	9.3%	8.2%
2019	13.6%	12.5%
2018	-1.7%	-0.9%
2017	7.6%	5.7%
2016	–	–
2015	–	–
2014	–	–

Past performance is not a reliable indicator of current or future performance. Performance data does not consider 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.

Investment risks

- Securities with a lower credit quality means a higher risk that an issuer may fail to meet its obligations. The investment value may fall if an issuer's credit rating is downgraded.
- Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- Asset-backed and mortgage-backed securities, and their underlying receivables are often intransparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- The sub-fund's investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-funds' investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-funds' performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

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