Monthly commentary / 30.06.2020
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
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 emerging and developed markets. With the medical situation remaining worrisome, however, and including 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.

Given that economic surprises in the US reached all-time highs, suggesting that data flow came in consistently above 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 a bit on investor preferences.

Markets continue to be backstopped by significant central bank liquidity injections and expansive fiscal policy. Earlier in the month, the European Central Bank announced another 600 billion euros addition to its pandemic emergency purchase programme (PEPP). The US Federal Reserve 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. Regarding corporate bonds, the Fed made some significant changes to its Secondary Market Corporate Credit Facility (SMCCF) on June 15, as it allows purchases of a broad and diversified mix of corporate bonds without the issuer`s certification. This should increase the program’s effectiveness and enhance its credibility as a backstop, potentially driving credit spread tighter. On the fiscal front, both Germany and Spain added sizable new programs. At the European level, the projected 750 billion euro European recovery fund progresses and will be up for debate again at the next EU meeting mid-July.

In global corporate bonds, credit spreads over the course of June continued to tighten, again driven by strong inflows and investors’ healthy appetite for new issuance. Global corporate bonds tightened 24 basis points to 159 bps, following a solid performance in the previous month. From a regional perspective, US-dollar corporate bonds continued to outperform euro corporate bonds. However, the spread differential between the two has narrowed further. New issue activity continued to remain robust, particularly in the US, where syndicate desks brought 174 billion US dollars in new supply in June, which marks year-to-date supply at 1.2 trillion dollars, or double that of last year.

Portfolio review
During the month of June, the fund retained its strong tone as higher beta credits continued to drive outperformance. We were particularly active in new issues given the robust activity from syndicate desks this month. In particular, we added to our higher beta exposure, especially in the telecom, autos, utilities, and tobacco sectors, across US dollar, euro, and pound sterling. Meanwhile, we sold out of positions in financial services and utilities that looked expensive based on a relative-value basis. At month end, we remain (unchanged) overweight the telecommunications, insurance and utilities sectors and underweight capital goods, transportation, and consumer goods. Our regional exposure changed modestly as North American exposure ticked down a percentage point to 46%, while our European exposure ticked down 2 points to 38%. Emerging markets (hard currency only) and Asia Pacific holdings were unchanged at 13%, with the remainder in the cash position.

Performance analysis
As the market continues to recover, the fund’s outperformance versus its reference index in June was driven by an uplift from bonds that were harder hit during COVID—namely, higher beta credits in developed and emerging markets. On a sector level, the outperformance of the fund can be attributed to positive credit selection in financial services, media, and utilities, while insurance, technology, and retail had a minor negative contribution. On a sector allocation basis, the positive contribution from insurance, banking, and utilities more than offset the negative contribution from consumer goods, energy, and real estate. 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. The strong performance of the fund during June helped boost assets under management up to around 460 million in US dollars.

Outlook

We continue to be more cautious on our macroeconomic view due to the potential economic implication of COVID-19. A strong contraction of economic activities seems inevitable because of the 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. The combination of global central bank support mechanisms and substantial fiscal policy efforts around the globe should definitely be supportive for developed markets. For global corporates, we continue to expect corporates to act prudently and focus on liquidity management. During the summer break, we expect a deceleration in new issuance to drive further spread tightening in the secondary market. The Q2 reporting season will then also bring more clarity on how severe the impact of COVID-19 on credit metrics will be. 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 the past two months, we believe valuations for global corporate bonds remain attractive and we continue to be active in uncovering market dislocations across sectors and switching out of credits that become overvalued.

Performance (in %)

Net returns			Rolling 12-month net returns			
USD	Fund	Index	Start date	End date	Fund	Index
MTD	2.2	1.8	01.07.2019	30.06.2020	7.5	7.1
YTD	3.5	3.4	01.07.2018	28.06.2019	10.2	9.6
2019	13.6	12.5	01.07.2017	29.06.2018	0.7	0.7
3 years p.a.	6.0	5.7	01.07.2016	30.06.2017	4.8	3.3
5 years p.a.	n/a	n/a	01.07.2015	30.06.2016	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.	5.9	5.3				
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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number 280). The KIID can be obtained in Spanish from Vontobel Asset Management S.A., Spain Branch, Paseo de la Castellana, 95, Planta 18, E-28046 Madrid or electronically from atencionalcliente@vontobel.es. The KIID is available in Finnish. The KIID is available in French. The fund is authorized to the commercialization in France since . Refer for more information on the funds to the Document d'Information Clé pour l'Investisseur (DICI). The funds authorized for distribution in the United Kingdom can be viewed in the FCA register under the Scheme Reference Number 466625. This information was approved by Vontobel Asset Management SA, London Branch, which has its registered office at Third Floor, 22 Sackville Street, London W1S 3DN and is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and subject to limited regulation by the Financial Conduct Authority (FCA). Details about the extent of regulation by the FCA are available from Vontobel Asset Management SA, London Branch, on request. The KIID can be obtained in English from Vontobel Asset Management SA, London Branch, Third Floor, 22 Sackville Street, London W1S 3DN or downloaded from our website vontobel.com/am. Refer for more information regarding subscriptions in Italy to the Modulo di Sottoscrizione. For any further information: Vontobel Asset Management S.A., Milan Branch, Piazza degli Affari 3, 20123 Milano, telefono: 0263673444, e-mail clientrelation@vontobel.it. The Fund and its subfunds are included in the register of Netherland's Authority for the Financial Markets as mentioned in article 1:107 of the Financial Markets Supervision Act ("Wet op het financiële toezicht"). The KIID is available in Norwegian. Please note that certain subfunds are exclusively available to qualified investors in Andorra or Portugal. The KIID is available in Swedish. The fund and its subfunds are not available to retail investors in Singapore. Selected subfunds of the fund are currently recognized as restricted schemes by the Monetary Authority of Singapore. These subfunds may only be offered to certain prescribed persons on certain conditions as provided in the "Securities and Futures Act", Chapter 289 of Singapore. The fund is not authorized by the Securities and Futures Commission of Hong Kong. It may only be offered to those investors qualifying as professional investors under the Securities and Futures Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution and if you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This information was approved by Vontobel Asset Management Asia Pacific Ltd., which has its registered office at 1901 Gloucester Tower, The Landmark 15 Queen's Road Central, Hong Kong. This document is not the result of a financial analysis and therefore the "Directives on the Independence of Financial Research" of the Swiss Bankers Association are not applicable. Vontobel Asset Management AG, its affiliates and/or its board of directors, executive management and employees may have or have had interests or positions in, or traded or acted as market maker in relevant securities. Furthermore, such entities or persons may have executed transactions for clients in these instruments or may provide or have provided corporate finance or other services to relevant companies.

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