Quarterly commentary / 28.6.2024

Vontobel Fund – Euro Short Term Bond

Marketing document for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, NL, PT, 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
At the start of the second quarter of 2024, a still-strong US economy and higher-than-expected US inflation data raised doubts among investors that the US Federal Reserve (Fed) would soon change track. But the tide then turned as there were increasing signs that the US economy – and the US labor market in particular – is slowly but surely starting to cool. At the same time, the US economy reported encouraging inflation data at the end of the quarter, giving fresh impetus to investors' hopes of an interest-rate cut.
Speaking of interest-rate cuts, while the Fed kept on the sidelines in the second quarter, other central banks decided they could no longer wait. The European Central Bank (ECB) cut its key interest rate in June, as it had already widely announced in the run-up to its meeting – but without committing itself to the future interest-rate path. The Swiss National Bank (SNB) cut its key interest rate for a second time following the interest-rate turnaround in March while also reducing its inflation forecast. The Bank of Canada and the Swedish Riksbank also lowered borrowing costs in the second quarter.
As we mentioned at the beginning, the strong economic performance from the start of 2024 remained intact (by and large) in the second quarter. Initially, investors were concerned the US economy was overheating, leading them to lower their expectations of interest-rate cuts by the Fed. As the quarter progressed, however, these concerns eased and hopes for a gentle economic slowdown – i.e., a soft landing – grew. Fed officials have hinted at the possibility of a single rate cut later this year, based on the median of their June forecasts.
Market participants are eagerly awaiting further indications as to whether this adjustment could take place in the third quarter, closer to the end of the year or possibly later. Policymakers have been cautious about the timetable for when the rate cuts will start, which is due to data from early 2024 raising concerns that the pace of falling inflation will slacken. According to some Fed representatives, however, the latest inflation data gives hope that inflationary pressures are easing.
The US government bond market was therefore choppy in the second quarter. Investors were constantly trying to predict when the Fed would start cutting interest rates. The yield on the three-year government bond fluctuated significantly, ranging from a high of 4.88 percent to a low of 4.43 percent and ending the quarter 14 basis points higher at 4.55 percent. German 3-year government bonds were only marginally less volatile, ranging between 2.52 percent and 2.87 percent and ending the quarter 10 basis points higher at 2.61 percent. This corresponds to a negative net return of 0.28 percent for the quarter for the entire US-Treasury spectrum and 0.70 percent for German Bunds respectively. The situation was a bit more positive for high-yield bonds and emerging market bonds in hard currency.

Portfolio review
In the second quarter we replaced maturing subordinated bonds by purchases of senior corporate bonds or even government bond, while leaving the rest of the portfolio largely unchanged.

Performance analysis
In absolute terms the Vontobel Fund Euro Short Term Bond gained 0.65 percent in the second quarter 2024, slightly outperforming the benchmark. Main positive drivers of the performance in relative terms have come from our higher carry compared with the benchmark and our overweight of corporate exposure as spreads have tightened further.

Outlook
The Fed seems to be in a dilemma and still waiting out events. It reduced the interest-rate cuts expected for 2024 from 0.75 percent to 0.25 percent – signaling only one interest-rate cut. However, we think a second rate cut is certainly possible, as the US economy and the labor market in particular could be approaching a turning point. As the US presidential election heats up in the second half of the year, US politics will come more to the fore, possibly leading to market volatility.
In Europe, we regard the recent political upheavals and the resulting nervousness on the markets as an opportunity, as we are anticipating a positive turnaround in the liquidity environment if the ECB eases its monetary policy further, impacting bond prices positively in general.

Fund characteristics

Fund name	Vontobel Fund – Euro Short Term Bond
ISIN	LU0278091037
Share class	I EUR
Reference index	Bloomberg Euro Aggregate 1-3 Year
Inception date	7.1.2009

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	0.5%	0.5%
YTD	0.9%	0.7%
1 yr	4.2%	4.0%
3 yrs p.a.	0.3%	-0.3%
5 yrs p.a.	0.6%	-0.2%
10 yrs p.a.	–	–
ITD p.a.	0.6%	-0.1%

Time period	Fund	Ref. index
2023	4.7%	4.0%
2022	-4.3%	-5.0%
2021	0.5%	-0.5%
2020	0.8%	0.2%
2019	2.0%	0.4%
2018	-0.7%	-0.2%
2017	–	–
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.
Shares were first issued for this share class in 2009. Sub-fund launch year: 2000. The investment policy was changed significantly as at 30.6.2017. The performance previously achieved was achieved under circumstances that are no longer valid today.

Investment risks

— 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.
— 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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