Vontobel Fund – Credit Opportunities

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

Market developments

July was a month of competing forces for global markets, with re-escalation between the US and Iran driving oil sharply higher and leaving Brent crude the best-performing major asset, up +23.6%. US President Donald Trump declared June's memorandum of understanding with Iran "over," and as both sides resumed strikes, Brent climbed from USD 71 per barrel at the start of the month to just over USD 100 per barrel on July 23 amid renewed Strait of Hormuz disruption, before retreating to USD 90 per barrel into month-end as signs of a pause emerged. Geopolitical risks around Iran and Russia-Ukraine, along with El Niño concerns, also lifted agricultural prices, with wheat and corn up +10.1% and +6.8%, respectively.

The reflationary backdrop weighed on global bonds even as major central banks held rates steady. The US Federal Reserve's (Fed) decision to leave rates unchanged offered little clarity from Chair Kevin Warsh on the reaction function, driving sharp Treasury curve steepening: the 30-year yield reached a post-2007 high of 5.27%, while the 10-year yield rose +27 basis points (bps) to 4.74%, helped only partly by a soft June core CPI print (0.0%, month over month). The US dollar lost ground against every G10 currency. The European Central Bank (ECB) also held rates steady, but struck a notably more hawkish tone, signaling that a September hike was probable amid inflationary risks from higher energy prices. Supported by a solid Eurozone Q2 GDP print (+0.4%), that guidance pushed the 10-year Bund up +35bps to a post-2011 high of 3.20%, an even larger move than in the US. The Bank of England's steadier, more dovish tone still saw gilts rise +29bps, with Governor Andrew Bailey stressing the Bank was not "edging towards a hike." In Japan, apparent FX intervention on July 30 (seemingly US-coordinated) drove a yen rebound after it hit its weakest level against the dollar since 1986, making it the best-performing G7 currency (+3.3%). Japanese Government Bonds outperformed (10Y +12bps to 2.81%) as the Bank of Japan signaled an autumn hike.

Equities were dominated by a sharp reassessment of the AI trade, as valuation, Chinese competition, capex intensity, and supply concerns hit the sector. The Philadelphia Semiconductor index slumped -20.6%, its worst month since 2008, and Korea's KOSPI fell -22.2% despite a +17.9% rebound on July 30, though both remain up over +50% year to date. A late-month recovery followed “Magnificent 7” earnings, with Microsoft posting its best day since 2008 and a record USD 450 billion market-cap gain. Breadth was more balanced than headlines suggested: the equal-weighted S&P 500 Index hit a record on July 28, while it closed essentially flat (-0.1%) versus the Nasdaq (-3.2%). European equities held up better on the solid Eurozone Q2 GDP print, with the STOXX 600 up +1.3% (+12.4% YTD) and the FTSE 100 up +3.6%. Asia lagged, with the Nikkei down -8.1% and Shanghai Composite down -5.9%.

In fixed income and credit markets, July was a month of divergence, with EUR investment grade (IG) the clear outperformer. EUR IG tightened -1bp (BBB: -1bp) as European spreads ground tighter across most sectors, while USD IG widened +3bps (BBB: +4bps), dragged by rate-sensitive, longer-duration names as the curve steepened; US media (+12bps), technology & electronics (+12bps), and telecoms (+9bps) led the widening in US/global IG. Subordinated segments were more resilient: European Bank CoCos tightened -6bps and Euro LT2 -4bps, while global hybrids were broadly flat (+1bp). BBs were mixed, with US BBs +9bps wider, while Euro BBs tightened -7bps, underscoring the continued European outperformance across the credit spectrum.

Portfolio review

The portfolio remains overall highly barbelled, with an overweight in synthetics and underweight in emerging-market (EM) sovereigns versus the long-term asset allocation of the strategy where we seek to benefit from higher roll-down performance. We reduced our cash level over the month to add exposure in the technology sector following the strong underperformance, focusing on names where we saw attractive mean-reversion potential. Our main risk allocations remain in European financials and CDS indices, although positioning in these areas remains selective. In our view, technicals in fixed-income markets remain supportive, and we expect micro-arbitrage positions — securities trading wide of the rest of an issuer complex — to continue to drive turnover. Overall, risk at both sub-asset class and fund levels remains cautious.

Performance analysis

The Vontobel Fund - Credit Opportunities E delivered a negative return of -0.62%. The performance is lower versus the ICE BofA Global High Yield Index, which was down -0.30%.

Outlook

While all-in yields are still the dominating driver for fixed-income technicals, we believe that dispersion will go higher given the overall rather tight valuations and market complacency. The fund seeks to extract value from these appearing pockets of volatility while not attempting to “time” the drawdowns. Trading the ebbs and flows of the market both at an aggregate risk level and in terms of our sub-asset class allocations feels to us like the best return-for-risk approach for these markets.

Fund characteristics

Fund name	Vontobel Fund – Credit Opportunities
ISIN	LU1242417589
Share class	E USD
Benchmark	–
Inception date	30.6.2015

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	-0.6%	–
YTD	3.8%	–
1 year	8.1%	–
3 yrs p.a.	15.3%	–
5 yrs p.a.	9.6%	–
10 yrs p.a.	9.8%	–
ITD p.a.	9.2%	–

Time period	Fund	Benchmark
2025	13.8%	–
2024	20.2%	–
2023	24.4%	–
2022	-10.6%	–
2021	9.5%	–
2020	16.0%	–
2019	20.1%	–
2018	0.1%	–
2017	4.3%	–
2016	4.4%	–

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, e.g. due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

Investment 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.
— The overall strategy may be volatile and the risk of a substantial loss cannot be ruled out. Active currency and volatility trading may be very speculative. The leverage achieved for investment purposes in the Sub-Fund through the use of derivative financial instruments is calculated using the notional approach. The sum of notionals leverage achieved over the course of the year is expected to be around 500% or less of the net assets of the Sub-Fund. However, the actual sum of notionals leverage achieved on average may be above or below this value.
— 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.
— CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
— Using derivatives creates significant leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
— Distressed securities have a higher credit and liquidity risk as well as uncertainty in any potential bankruptcy proceedings.
— The sub-fund’s investments may be subject to sustainability risks. Information on how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

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