ERIC STURDZA INVESTMENTS

# Strategic Bond Opportunities Fund

April 2020 Fund Commentary

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PORTFOLIO MANAGER

## MARKET DEVELOPMENT

In April, safe haven government bond yields continued to stay low despite a huge rebound of equities. As a result, credit spreads tightened significantly, in line with the Wall Street rally. The two main central banks, i.e. the Fed and the ECB sent different messages to the financial markets, all of them with the same goal: to stop the bleeding and to fix the economies of the developed world. One of the main topics of the month have been the sharp decrease of oil prices, future contracts going for the first time into negative territory during a short period of time.

## PORTFOLIO STRATEGY

In April, the Investment Adviser adopted a tactical view, decreasing the weight of credits after the huge rally of corporate spreads and increasing duration through US Treasuries. As a result, two hybrid bonds (the French EDF and Orange) were sold and the weight of the US Treasury maturing in 2050 was increased. The Team also increased the duration of the portfolio with the sale of a US Treasury maturing in 2021 in order to buy the 10y benchmark US Treasury 2030. Earlier in the month, the Investment Adviser switched a small position of US Treasury 2021 into a Nestlé corporate bond 2021, seizing the opportunity to catch some spread pickup on a very defensive high-quality name.

## MARKET OUTLOOK

The Investment Adviser's outlook is still focused on the macroeconomic situation (including growth and inflation), Central Banks' behavior and the evolution of equity markets. Inflation risk remains and will continue to be very low in the US and in Europe in the coming months. Global growth is expected to contract dramatically in the coming months as Asia, Europe and the US may face a significant slowdown and more probably a deep recession. In the short term, the US yield curve could continue to flatten due to strong demand for safe haven assets and particularly US Treasuries.

In this context, the Investment Adviser believes that long term US Treasuries are still attractive and may increase duration against escalating global recession fears due to the coronavirus crisis. Considering long-term inflation expectations, the Team will maintain a significant exposure to US inflation protection securities (30y TIPS), expecting higher breakeven expectations during the second half of the year. The Team thinks that the best strategy today is to invest in a timely manner, maintaining a selection of high quality corporate bonds, combined with a barbell strategy on the US Treasury yield curve, with an overweight of 1-2y combined with long dated US Treasuries (both nominal and real yields).

In Europe, the Investment Adviser believes that current macro conditions, Brexit uncertainties and recent coronavirus outbreak support the recent accommodative measures from the ECB.

As for Emerging Markets, the Investment Adviser will temporarily avoid investing but will closely monitor spread patterns (both governments and corporates) in order to seize opportunities in the future (6-12 month horizon), once spreads have widened sufficiently. At this stage, any significant increase of the weight of Emerging Markets is premature.

In conclusion, the Team believes that, in the current environment, the best performing portfolio will be a mix of hybrid bonds issued by high quality corporates combined with long term US Treasuries, both nominal and real (TIPS).

### INVESTMENT APPROACH

The Fund is a diversified bond fund, investing in bonds predominantly denominated in USD, including Sovereigns, Supranationals and Agencies (together SSAs), corporate bonds across all sectors and financials. A strong conviction portfolio of 30-60 issuers, seeking exposure to all continents (including developed as well as emerging markets), all types of ratings from AAA/Aaa to BB/Ba2 (Standard & Poor's/Moody's) and non-rated bonds (10% maximum), senior or subordinated debt (hybrid corporates and Tier II bank debt) with either fixed or floating coupon rates.

### INVESTMENT OBJECTIVE

To achieve a total return through a combination of capital growth and income by investing in a globally diversified portfolio of fixed income securities.

A sub-fund of E.I. Sturdza plc. Registered in Ireland.

### CONTACT

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## IMPORTANT INFORMATION

The views and statements contained herein are those of Banque Eric Sturdza SA in their capacity as Investment Advisers to the Funds as of 08/05/2020 and are based on internal research and modelling.

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