



Strategic Bond Opportunities Fund

June 2020 Fund Commentary



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MARKET DEVELOPMENT

At the FOMC on 10 June and reiterating to Congress a few days later, Jerome Powell explained that recently released encouraging macroeconomic data (unemployment figures in particular) were not (or at least not yet) a sign that the US economy is improving dramatically and that a V-shape recovery is unlikely. At the beginning of the month, the US Treasury curve experienced a bearish steepening, but this small correction did not last long. The first half of June did not however favour long dated US government bonds, given investor appetite for equities, but also high-risk bonds, which led to significant outflows. In addition, this was compounded by higher supply in the primary market and selling pressures from China hindering the long end of the curve. Towards the end of the month, concerns grew regarding a second wave of coronavirus in Asia and Europe and the continuation of the first wave in America, leading to a stabilisation of US Treasury yields.

PORTFOLIO STRATEGY

In June, the Investment Adviser slightly increased the duration risk of the portfolio, buying 10y Treasuries. A small position in 30y Treasuries was sold in order to build a new Italian 10y position, yielding almost 3%. In the Emerging Market space, the Team switched BDO Unibank into the hybrid bond issued by Bimbo.

MARKET OUTLOOK

The Investment Adviser's outlook remains focused on the macroeconomic situation (including growth and inflation), Central Banks' behavior and the evolution of equity markets. Inflation risk, in the Team's opinion, is likely to remain very low in the US and in Europe for the coming months. Global growth is expected to contract dramatically in the next few months as Asia, Europe and the US may face a significant slowdown and probably a recession. In the short term, the US yield curve could continue to steepen, but Fed purchases and strong demand for safe haven assets should stabilise long term yields at low levels.

In this context, the Investment Adviser believes that long term US Treasuries are still attractive, but considering long term inflation expectations, the Team will maintain a significant position in US inflation protection securities (30y TIPS), anticipating higher breakeven expectations during the second half of the year. The Team believes 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 is of the opinion that current macro conditions, Brexit uncertainties and the recent coronavirus outbreak support the recent accommodation measures from the ECB.

As for Emerging Markets, the Investment Adviser remains cautious but will closely monitor spread patterns (both governments and corporates) in order to seize opportunities in the near future (probably sooner rather than later), once spreads have widened sufficiently. At this stage, any significant increase of exposure to Emerging Markets would be premature but this could change over the Summer.

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.

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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 06/07/2020 and are based on internal research and modelling.

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