



# Strategic Bond Opportunities Fund

July 2020 Fund Commentary



**Eric Vanraes**  
PORTFOLIO MANAGER

## MARKET DEVELOPMENT

The June unemployment figures unveiled on 2 July were strong: 4.8 million jobs were created, with unemployment down from 13.3% to 11.1%. This positive news was offset by concerns of the COVID-19 pandemic expanding in the US, as well as heightened tensions between the US and China following the adoption of the new security law in Hong Kong.

Joe Biden continued to justify his position as favourite in various polls ahead of the US Presidential election in November. The Federal Open Market Committee (FOMC) confirmed that the Fed will maintain a dovish stance given the considerable threat that COVID-19 poses to the economy. Asset purchases will continue at the same pace or potentially faster.

As inflation fears began to increase (as seen through gold prices and TIPS negative yields in particular), deflation fears appeared to be over; although a V-shape recovery seems unlikely.

## PORTFOLIO STRATEGY

In July, our Investment Team increased the duration risk of the portfolio slightly, adding to the existing 10-year US Treasury position.

## MARKET OUTLOOK

Our outlook remains focused on the macroeconomic situation (including growth and inflation), the behaviour of Central Banks and the evolution of equity markets. We believe inflation risk will remain low in the US and Europe in the months ahead, but inflation fears could continue to increase gradually.

Global growth is expected to stabilise over the coming months in Asia, Europe and the US. In the short term, the US yield curve could continue to steepen slightly, but Fed purchases and strong demand for safe-haven assets should stabilise long-term yields at low levels.

In this context, we believe that long-term US Treasuries are still attractive. This said, considering long-term inflation expectations, we will maintain a significant exposure to US inflation protection securities (30-year TIPS), anticipating higher breakeven expectations during the second half of the year.

We are of the opinion 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 1-2 year combined with long-dated US Treasuries (both nominal and real yields).

In Europe, we believe that current macro conditions, Brexit uncertainties and the coronavirus outbreak support the recent accommodation measures from the European Central Bank (ECB).

We continue to avoid investing in Emerging Markets but will closely monitor spreads' patterns (in both government and corporate bonds) in order to seize future opportunities (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 opportunities could appear and be acted on in the coming weeks.

In conclusion, and given the current environment, the Team believes that the best performing portfolio is a mix of hybrid bonds issued by high-quality corporates combined with long term US Treasuries, both nominal and real (TIPS) and short-dated investment grade investments.

## 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

E.I. Sturdza Strategic Management Limited  
+44 1481 722 322  
info@ericsturdza.com  
ericsturdza.com



## 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 17/08/2020 and are based on internal research and modelling.

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