



Strategic Bond Opportunities Fund

September 2020 Fund Commentary



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MARKET DEVELOPMENT

During September, safe haven assets underperformed while risky markets continued to gain, yet high yield spreads widened substantially, followed by Emerging Markets to a lesser extent. In terms of behaviour and performance, credit markets were still divided: bonds which are included in central banks' purchase programs (Fed and ECB) were still performing and were sought by investors; and other issuers were still lagging. At the same time, US Treasuries stayed within a small trading range, around 0.7% for the 10 year and around 1.4% for the 30 year. Despite increasing inflation fears in August, long term inflation breakevens stabilised this month. The market seemed to remain in a "wait and see" position before the outcome of the US Presidential election and the potential unveiling of a stimulus plan to combat the damage caused by the Covid crisis on the real economy.

MARKET OUTLOOK

Our outlook remains focused on the macroeconomic situation (including growth and inflation), Central Banks' behaviour, and the evolution of equity markets. We believe inflation risk will remain low in the US and Europe in the coming months, but inflation fears could continue to increase gradually. Global growth is expected to stabilise in 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 remain attractive, but considering long-term inflation predictions, we will maintain significant exposure to US inflation protection securities (30-year TIPS), anticipating higher breakeven expectations during the coming weeks. We believe 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 (predominantly real yields).

In Europe, we are of the opinion that current macro conditions, Brexit uncertainties, and the recent coronavirus outbreak support the recent accommodation measures from the ECB.

We continue to avoid investing widely in Emerging Markets, but will monitor the spreads' patterns closely (both governments and corporates) in order to seize opportunities once spreads have widened sufficiently, probably sooner rather than later. At this stage, any significant increase in the weight of Emerging Markets is still premature, but this may change in the coming weeks.

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

PORTFOLIO STRATEGY

In September we continued to decrease the allocation to Treasuries in order to favour credit spreads. We bought Nestlé 2028, a new hybrid bond in euro issued by the Belgian Solvay, and increased the weight of PSA Treasury, a government-owned Singaporean corporate active in marine transportation services. In Emerging Markets, we added Enel Americas 2026 (a Chilean Utility, subsidiary of the Italian Enel).

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 08/10/2020 and are based on internal research and modelling.

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