Strategic Bond Opportunities Fund

October 2020 Fund Commentary

MARKET DEVELOPMENT

During October, long-term government bond yields increased substantially on the back of inflation fears, equity market rallies and a possible Blue wave at the US Senate combined with the victory of Joe Biden. At the same time, the COVID-19 pandemic has not eased in the US and a second wave has spread throughout Europe.

The short term trend of financial markets was difficult to predict as no stimulus plan had been unveiled prior to the Presidential election. The levels of risks and uncertainties increased, but this did not lead to a bullish Treasury market. No matter the outcome of the US election, and due to the importance of the pandemic in Europe (causing lockdowns almost everywhere), the Fed and the ECB are at the heart of the action.

MARKET OUTLOOK

Our outlook remains focused on the macroeconomic situation (including growth and inflation), Central Banks' behaviour and the evolution of equity markets.

In addition, the COVID-19 pandemic spreading through Europe again and not decreasing in the US is still a major concern. 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 should the COVID-19 crisis gradually decrease. 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 Europe, we feel that current macro conditions, Brexit uncertainties and the second wave of coronavirus, combined with an ultra-dovish ECB policy will add fuel to the credit spreads rally. The ECB (and to a lesser extend the BoE) should implement new ultra-accommodative measures to combat the damages of the pandemic. In this context, and when the US election is over, we believe the Fed is likely to take action.

Additionally, we believe that long term US Treasuries remain attractive but considering long-term inflation predictions, we will maintain a significant exposure to US inflation protection securities (30y TIPS), anticipating higher breakeven expectations during the coming weeks.

Regarding Emerging Markets, we are now looking for investment opportunities, but the strategy will be driven by bond picking rather than an increase of exposure to this market.

It is still our 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 1-2y combined with long dated US Treasuries (predominantly real yields).

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.

Eric Vanraes
PORTFOLIO MANAGER

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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FUND STRATEGY

During the month, we continued to favour credit spreads. We have increased exposure to hybrid bonds (Repsol, Telefonica and BP) and European Crossovers (Orano). New York Life (Investment grade in USD) was also added to the portfolio. In emerging markets, we increased the position in Enel Americas 2026 (a Chilean Utility, subsidiary of the Italian Enel), bought in September. At the same time, in order to partially hedge this increase in credit spreads through higher duration, we bought some 10y and 30y US Treasuries.

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 09/11/2020 and are based on internal research and modelling.

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