Strategic Bond Opportunities Fund

November 2020 Fund Commentary

Market Development

In November, the most awaited event was the outcome of the US elections. Joe Biden will be the next President, but there has been no blue wave at the Senate. As a result, the US Treasury market remained calm and fears of a substantial sell-off vanished. A few days after the election, the unveiling of three different vaccines (Pfizer-BioNTech, Moderna and AstraZeneca) led to a rally of risky markets, including equities and corporate spreads. Hybrid debt was one of the clear winners of the month.

At the same time, with Joe Biden at the White House, Janet Yellen as Secretary of the Treasury and Jerome Powell (still) at the Fed, fixed-income markets began to consider the possibility that reflation could resurface in early 2021. Long-term Treasury yields barely moved but inflation breakevens increased substantially, the 30y B/E rising towards the 2% target.

Market Outlook

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

At the same time, the Covid pandemic spreading into Europe and not decreasing in the US is still a major concern. We expect inflation risk to remain low in the US and in Europe in the coming months, but inflation fears could continue to be a major source of concern. Global growth is expected to stabilize in the coming months in Asia, Europe and the US should the Covid crisis decrease gradually.

In the short term, the US yield curve could continue to steepen slightly, but Fed purchases and strong demand for safe haven assets should stabilize long-term yields at low levels.

In Europe, the ECB (and to a lesser extent the BoE) should implement new ultra-accommodative programs in order to fight against the damages caused by the pandemic. In this context, the Fed will probably take action in early 2021.

We believe that considering long-term inflation expectations, significant exposure to US inflation protection securities (30y TIPS) will continue to be one of the main pillars of our strategy, anticipating higher breakeven expectations in the coming weeks or months. We believe that the best strategy today is to invest in a selection of high-quality corporate bonds, both in EUR and USD, favouring hybrid debt, in Emerging Markets and US real Treasury yields.

Fund Strategy

In November, we continued to favour credit spreads. We sold the whole position in 30y Treasuries on 4th November and greatly decreased the weight of 10y Treasuries during the month. We substantially increased the weight of hybrid bonds (Repsol, Telefonica, BP, Vodafone, Bimbo and Veolia) and emerging markets (Baidu, AliBaba, Tencent, Romania and Indonesia). We also bought three Investment Grade Issuers in USD, AstraZeneca (just before the news of a new vaccine), Autozone and ST Engineering (State-owned Company from Singapore with Temasek as a major shareholder).

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 Funds 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 11/12/2020 and are based on internal research and modelling.

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