



Strategic Bond Opportunities Fund

January 2021 Fund Commentary



Eric Vanraes
Portfolio Manager

Market Development

During the first few days of the year, the markets began to fear greater inflation pressures than were expected at the end of 2020. In Georgia, two Democrats won the election at the Senate, giving Joe Biden a full victory (White House, Senate and the House of Representatives). As a result, the \$1.9 trillion stimulus program, led by Janet Yellen, pushed equity markets to a record high, while long bond yields also began to increase significantly. The yield curve steepened and inflation breakevens have already reached the level that was expected at the end of Q1.

Despite unattractive unemployment figures (140,000 jobs wiped out in December) and the emergence of frightening new variants of COVID (English, South-African and Brazilian), the behaviour of the financial markets were still depending on three key factors: reflation, TINA (There Is No Alternative) and QE (Quantitative Easing). This is likely to mean more steepening of the yield curve in the short term; the pursuit of the rally of equities and corporate bonds (TINA); and trust in the ultra-dovish policies of major central banks, with more QE if needed.

Market Outlook

Our outlook still 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 despite the arrival of the vaccines (which has been offset by the appearance of a new variant of COVID in the UK). Inflation fears are becoming 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 US, the Treasury yield curve could continue to steepen but Fed purchases and strong demand for safe haven assets should stabilize long-term yields at current levels. We believe that, considering long-term inflation expectations, a significant exposure to US inflation protection securities (30y TIPS) will continue to be one of the main pillars of the strategy, expecting higher breakeven expectations during the coming weeks or months. Should the breakeven reach 2.15% or above, the weight of 30y TIPS could be decreased.

In Europe, we expect the ECB (and to a lesser extent the BoE) to implement new ultra-accommodative programs in order to combat the damages of the pandemic.

Some high-quality Emerging Markets could offer investment opportunities, driven by demand and by the weakness of the US dollar.

As a result, we are of the opinion 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 (to a lesser extent than in 2020) US real Treasury yields.

Fund Strategy

In January, we continued to favour credit spreads. We bought NextEra 2030 and more ST Engineering 2025 (two USD investment grade (IG) names), we increased the weight of two hybrids denominated in USD, BP and Bimbo and finally bought the new hybrid in EUR issued by EDP. We also reintroduced a small investment in 30y US Treasuries in order to hedge the high beta credit exposure of the Fund. In the EUR IG market, we sold Exor 2028.

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.

Contact

E.I. Sturdza Strategic Management Limited

+44 1481 722 322
info@ericsturdza.com
ericsturdza.com



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