Strategic Bond Opportunities Fund

March 2021 Fund Commentary

Market Development

During March, the markets continued to fear further inflation despite comments from the Fed, stating that the CPI could peak during Q2, but should decrease thereafter. As a result, caught between inflation expectations and the reassuring (and non-threatening) behaviour of the Fed, the possible pursuit of the sell-off in the US Treasury market did not materialise this month and the yield curve stabilised, at least temporarily. Prior to the Easter break the US yield curve was more stable, despite more volatility than under normal circumstances, waiting for Q2 and two key events: the publication of the first CPI figures above 2%; and the comments of Jerome Powell. Many investors still believe that the Fed will stay "behind the curve", and this is a concern. The credit markets and corporate spreads continued to perform in the wake of Wall Street remaining very bullish. In Europe, the ECB's aim was to boost inflation, but due to delays in vaccination plans affecting many countries, the situation remains very different to the US.

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 is not over and the delays in vaccination plans in some regions are affecting the recovery. Inflation fears in the US are still the major source of concern and will be the major parameter of the US Treasury market in the coming weeks and months. We, like the Fed, believe that consumer prices will increase (possibly sharply) during the coming months, but inflation should reduce in Q3. Global growth is expected to increase gradually in the coming months in Asia, Europe and more importantly and rapidly, in the US.

In the US, the Treasury yield curve could continue to steepen, but Fed purchases and strong demand for safe haven assets should stabilise long-term yields at reasonable levels. We aren't excluding a continuation of the sell-off, but should long-term yields reach higher levels such as 2% for the 10y, this could become a buying opportunity. That said, following the sharp increase of inflation breakevens, we believe that any exposure to US inflation protection securities has become too risky. As a result, this strategy was abandoned in February and will be excluded from the global strategy of the Fund for the coming months.

In Europe, the ECB could implement new ultra-accommodative programs in order to combat the collateral damage of higher US Treasury yields on the European bond market. Some high-quality emerging markets could offer investment opportunities, driven by demand and by the weakness of the US Dollar, but the political and health situation in Latin America are, for the time being, too risky and uncertain to consider investing in this region. 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 and high-quality Emerging Markets.

Fund Strategy

In March, we continued to favour spreads (both credit and emerging markets). In the Euro market, we sold Orano and bought EDP hybrid. We also took profit in Total hybrid and reinvested the proceeds in two other French hybrids, Veolia and La Poste. In the Dollar Investment Grade market, we increased the weight of New-York life and in Emerging Markets we sold the remaining position in the Peruvian government agency Cofide 2025 to buy Cofide 2027 (duration extension trade).

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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