Strategic Bond Opportunities Fund

April 2021 Fund Commentary

Market Development

During April, long-term US Treasury yields stabilised on the back of decreasing inflation fears. Chair Powell provided some clarification on this topic on 28th April during his FOMC press conference. He did not mention any timeframe regarding tapering, but fears of a more aggressive Fed policy emerged as many investors remember the dramatic consequences of the 2013 taper tantrum. After encouraging economic statistics and the positive progression of vaccination campaigns, some Investment Banks believe that the central bank may reduce its asset purchases this summer. At the same time, credit spreads continued to perform well, in line with equities. In Europe, despite some economic improvements, lockdowns and delays in vaccination campaigns had a negative impact on markets, and the ECB confirmed that its ultra-dovish policy will be maintained through 2021.

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 throughout some regions are affecting the recovery. Inflation fears in the US continue to be an issue, but the behaviour of the Fed towards tapering will become the major source of concern. As a result, tapering, or more precisely talks regarding the timing of tapering, will become the major parameter of the US Treasury market in the coming weeks. We, like the Fed, believe that consumer prices will increase (and possibly sharply) during the coming months, but inflation should come down 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 are not 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 near future.

In Europe, the ECB could implement, if needed, new ultra-accommodative programs in order to combat the collateral damages 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 USD Investment Grade and hybrid debt (both in EUR and USD).

Fund Strategy

We continued to favour spreads throughout April, USD Investment grade in particular. In this asset class, we bought seven new names: Hewlett-Packard 2025, Oracle 2026, Verizon 2027, Comcast 2028, Walt Disney 2029, Ebay 2030 and Deutsche Telekom 2030. These purchases were financed by the sales of US Treasuries 2022, Nestlé 2021 and Danone 2021. In Emerging Markets, the position in Enel Americas (Chilean utility) 2026 has been increased. In the EUR High Yield market, Saipem has been sold and replaced by Renault. Finally, in the Hybrid market, the exposure to Telefonica has been reduced in favour of the French La Poste.

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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