Strategic Bond Opportunities Fund

June 2021 Fund Commentary

Market Development

During June, long-term US Treasuries decreased significantly, despite a sharp increase of inflation to +5% (+3.8% core, excluding food and energy) and a more hawkish FOMC than anticipated by the markets.

The dot plots unveiled that two rate hikes are expected in 2023, but seven members of the Fed were in favour of an initial rate hike in 2022. The US central bank began talks regarding tapering, but Jerome Powell remained very cautious, mentioning that the US economy is recovering at a strong pace, but unemployment is still a concern and inflation is temporary (but perhaps higher than anticipated by the Fed earlier this year). In this environment, credits were still performing. Hybrid debt, which underperformed in May, finished the month of June with a sharp rebound.

Market Outlook

Our outlook remains focused on the macroeconomic situation (including growth, inflation and unemployment), Central Banks' behaviour (the timing of tapering) and the evolution of equity markets. At the same time, the COVID pandemic is not over, and feardelays in vaccination plans throughout some regions are affecting the recovery in the Emerging Markets (Latin America and Asia ex-China in particular).

Inflation fears in the US are decreasing, and the behaviour of the Fed towards tapering is likely to become the major source of concern. As a result, tapering, or more precisely talks surrounding the timing of tapering (expected to begin during the Jackson Hole meeting this summer), should become the major driver of the US Treasury market in the coming weeks.

We, like the Fed, believe that consumer prices will increase (possibly sharply) during the coming months, but inflation should come down in Q4. Global growth is expected to increase gradually in the coming months in Asia, Europe and more importantly and rapidly, in the US.

After an unexpected bull-flattening market in the US at the end of Q2, the Treasury yield curve could steepen, but Fed purchases and strong demand for safe haven assets should stabilise long-term yields at reasonable levels. In Europe, the ECB could implement if needed, new ultra-accommodative programs in order to combat low growth and low inflation.

Some high-quality Emerging Markets could offer investment opportunities, driven by demand and 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).

The strategy implemented in May will be maintained during the coming weeks. High-quality credit spreads are a sweet spot in the current environment, but short maturity (3-5y) spreads are too tight.

The strategy is to buy longer maturities (7-10y instead of 3-5y) while partially hedging their higher duration through a duration overlay policy, selling 10y Treasury Futures CBoT.

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.

Contact

E.I. Sturdza Strategic Management Limited

+44 1481 722 322

info@ericsturdza.com

ericsturdza.com

Fund Strategy

We continued to favour spreads throughout June, USD Investment grade in particular. We bought a new name in this asset class, the French utility EDF and increased the weight of Orange and New-York Life. In the Hybrid market, we sold the whole position in the Belgian chemical company Solvay, and bought the British utility National Grid. The duration overlay policy, initiated in May with the sale of 80 10y Treasury Future contracts, has been maintained this month.

Ratings & Awards

Morningstar Sustainability Rating

Out of 522 Global Fixed Income-funds as of 31/05/2021. Based on 77.99% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

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