ERIC STURDZA INVESTMENTS

Strategic Bond Opportunities Fund

July 2021 Fund Commentary

Market Development

During July, long-term US Treasury yields continued to decrease significantly. High inflation was no longer a concern and despite a more hawkish tone, the last FOMC did not convince the bond market to stop its bullish flattening pace.

Long bonds sent a message to the markets (and to the Federal Reserve): COVID (the delta variant) still has the potential to harm the economy. Growth remains high, but signs of a slowdown are showing and unemployment is decreasing sharply, although not enough to change the Fed's monetary policy in the short term.

Tapering could be mentioned at the Jackson Hole meeting in August, or more likely, at the next FOMC meeting on 22nd September. The implementation of this tapering (possibly $10 billion of Treasuries and $5 billion of Mortgage Backed Securities per month) could begin once US job reports show a return to full employment. Regarding the decision of a first rate hike, Jay Powell announced that two conditions will need to be met: full employment and inflation stabilised at (or slightly above) 2%. In Europe, the ECB announced an "Americanisation" of the definition of its inflation target. Markets concluded that the monetary policy in the Eurozone would not change during the next three years (at least!).

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, due to the spread of the delta variant, is not over and the delays in vaccination plans in some regions are affecting the recovery in Emerging Markets (Latin America and Asia ex-China in particular). Inflation fears in the US have decreased, and the behaviour of the Fed towards tapering will probably 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, but to be clarified on 22nd September), will become the major driver of the US Treasury market in the coming weeks. We, like the Fed, believe that consumer prices should come down in Q4. Global growth should increase gradually in the coming months, but some indicators show that US growth could reach a plateau and stagnate in 2022.

In the US, following an unexpected bull-flattening market at the end of Q2, the Treasury yield curve could continue at the level reached in July. 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 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). High quality credit spreads remain attractive in the current environment and we intend to continue buying long maturities (7-10y instead of 3-5y) while partially hedging their higher duration through a duration overlay policy.

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

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Fund Strategy

In July, we maintained our strategy, favouring USD Investment grade bonds in particular, and increasing the weight in this asset class by purchasing more IBM 2029. However, for ESG considerations, we sold Toyota Industries 2023 and Indonesia Eximbank 2024 in order to improve the quality of the portfolio in this field. The duration overlay policy initiated in May, was also decreased in July.

Ratings & Awards

Morningstar Sustainability Rating

Out of 522 Global Fixed Income-funds as of 30/06/2021. Based on 78.97% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.