Strategic Bond Opportunities Fund

August 2021 Fund Commentary

Market Development

During August, there was very little movement in long-term US Treasury yields, despite some potential bad news for the bond market: the unemployment rate and inflation both reaching 5.4%, and the confirmation of tapering in the near future at the Jackson Hole meeting. On the other hand, COVID (the delta variant) is still a threat to the growth outlook and the first signs of a slowdown materialised (or at least the end of the V-shaped recovery). Apparently, the Fed seems convinced that the high inflation is temporary and 943,000 job creations are not enough to modify their monetary policy. Finally, the Jackson Hole meeting did not bring any news that we did not already know. Jay Powell's speech was slightly more dovish than expected, postponing official decisions on tapering to the September (or December) FOMC meeting. As a result, credit spreads were still performing well, following the equity markets and their euphoria. In the corporate debt space, hybrid bonds rallied significantly and became expensive. Emerging Markets were still a source of concern, driven by the widening of some Chinese credit spreads.

Market Outlook

Our outlook remains focused on the macroeconomic situation (including growth, inflation and unemployment), Central Banks' behaviour (the timing of tapering and its size) 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 could become the major source of concern. The Fed will probably wait for the last FOMC meeting of the year (on 3rd December) to unveil its program. We are becoming concerned by the outlook of economic growth for Q1 2022. As a result, tapering could be lower than expected or potentially postponed should growth and unemployment disappoint. We, like the Fed, believe that consumer prices should come down in Q4.

In the US, the Treasury yield curve could stay at the levels reached this summer. Fed purchases and strong demand for safe haven assets should stabilise long-term yields at reasonable levels. In Europe, the ECB should continue to be ultra-accommodative, despite the announcement of a very small reduction of its Public Sector Purchase Programme.

Some high-quality Emerging Markets could offer investment opportunities, driven by demand and the weakness of the US dollar, but the political and health situations in Latin America are, for the time being, too risky and uncertain to consider investing in this region. China is becoming a concern too, and the evolution of credit spreads must be watched carefully. On the other hand, this could create investment opportunities in high-quality Chinese corporates.

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 (both in EUR and USD). Hybrid debt is becoming expensive: the objective is to keep the existing position for the carry of the spread, but not dramatically increasing the weight of this asset class. High quality credit spreads are still attractive in the current environment and we intend to keep 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.

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Fund Strategy

We continued our strategy in August, slightly increasing the weight of Deutsche Telekom and marginally reducing the duration overlay policy with the purchase of 10 US 10y Note future contracts.

Ratings & Awards

Morningstar Sustainability Rating

Out of 481 Global Fixed Income-funds as of 31/07/2021. Based on 81.98% of AUM. Data is based on long positions only.

Awards Disclaimer - The Strategic Bond Opportunities Fund received a 4 Globe Morningstar Sustainability Award. Data is based on long positions only. Historical Sustainability Score as of 30/06/2021. Sustainability Rating as of 31/07/2021. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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