

STRATEGIC BOND OPPORTUNITIES FUND

A SUB-FUND OF E.I. STURDZA FUNDS PLC. REGISTERED IN IRELAND



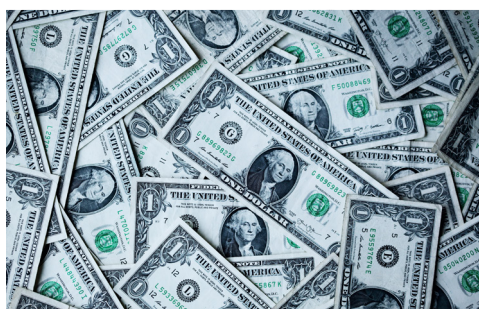
ERIC STURDZA
INVESTMENT FUNDS

JANUARY 2019 – MONTHLY COMMENTARY BY PORTFOLIO MANAGER ERIC VANRAES

MARKET DEVELOPMENT

On Friday 4th January, two major events drove the behaviour of financial markets following a year end disaster in equity markets and a strong rally of government bonds: the US unemployment figures were very strong with 312'000 jobs created and average hourly earnings reaching +0.4% MoM (+3.2% YoY); and a few hours later, Mr Powell spoke in Atlanta (GA), his speech revealing a very dovish tone, including the word "patience". As a result, the markets expected confirmation of this new, dovish tone at the FOMC meeting on 29th January but to the contrary, Jay Powell declared that the size of the Fed's balance sheet should decrease substantially and rapidly, sowing the seeds of doubt.

In this environment (slowdown in China, +6.4%, the slowest growth since March 2009; Brexit; economic, social and political uncertainties in the Eurozone; US Government shutdown), all eyes were focused on the Central Bank's behaviour. The ECB was the first to score: unanimously, they observed that growth was slowing and inflation stayed low. Mario Draghi adopted a very dovish tone despite indicating that a QE2 could be possible later in 2019. To consider a second round of QE less than a month after the end of QE is something that was unbelievable just two months ago. Then came Jay Powell on the 29th and his very dovish speech (including reference to "patience", i.e. excluding a rate hike on 20th March) led the Fed to aim to draw level. Regardless of the performance of equities (a record) or bonds, or the release of economic statistics, a temporary agreement to end the shutdown...the Investment Adviser believes the most important event of this first month of the year is that none of the major world central banks remain hawkish.



PORTFOLIO MANAGER



ERIC VANRAES

Eric Vanraes is Head of Fixed Income Investments at Banque Eric Sturdza SA, where he has been employed since July 2008. Eric has over 28 years' experience and currently manages our fixed income range. Prior to joining the Eric Sturdza Banking Group Eric was a member of Senior Management, Head of Credit and Absolute Return Portfolio Management and Manager of four compartments of the SICAV UBAM at Union Bancaire Privée.

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STRATEGIC BOND OPPORTUNITIES FUND

The Strategic Bond Opportunities Fund successfully launched on 14th December. The strategy was not substantially modified before year end and January was the first "full month" of management of the portfolio. The Investment Adviser decreased the weight of Emerging Market issues (DB Kazakhstan, Pertamina, Codelco, BDO Unibank) and increased the allocation to credits in USD (Telstra, BFCM) and in EUR hedged into USD (Ferrari). The Team also favored US Treasuries and increased duration by switching some 2y Treasuries into 10y and 30y. At month end, the modified duration remained just over 5.

OUTLOOK

The Investment Adviser's outlook is focused on two major themes: inflation and Central Banks' stand-points. The risk of inflation remains subdued and the US yield curve flattening, combined with other topics such as the risk of the trade war escalating, suggest that recession fears (or at least fears of a significant slowdown) are becoming a major concern.

In the US market, the Investment Adviser believes that long US Treasuries are still attractive, considering that they could be a top performing asset class in 2019. A more inverted curve slope can not be ruled out in 2019.

The Investment Adviser believes that the best strategy today is to keep investing in short term corporate bonds yielding around 3.5% combined with 30y US Treasuries. The behaviour of the Fed will be a key driver of the markets, and bond yields will also depend on the evolution of equity markets. The Investment Adviser believes that a US rate hike will not be possible in 2019 and that the Fed will probably be forced to ease before year end, or significantly amend its balance sheet reduction program.

In Europe, the Investment Adviser believes that the Bund will match the US Treasuries behaviour and will also perform well in case of any resurgence of tension in Italy or France and in the case of recession fears in Germany. Brexit uncertainties will also add stress to the market. A QE2 is possible in the Eurozone before the end of 2019.

In Emerging Markets, the Investment Adviser continues to

closely monitor the behavior of spreads (both governments and corporates) and the increasing volatility due to global risk aversion. Spreads have widened substantially in 2018 and some Emerging bonds could perform well in 2019.

In conclusion, the Investment Adviser maintains the belief that the best performing asset class is a mix of short term Investment Grade corporates and long-dated US Treasuries. Emerging markets are likely to remain volatile during the coming months but current levels offer an attractive opportunity to invest in very high-quality EM markets. Bonds denominated in euro and hedged in US dollar are also becoming an attractive investment opportunity. The Team believe a mix of all these sub-asset classes will represent an opportunity to deliver performance in 2019 despite a very low yield environment.

The views and statements contained herein are those of the Eric Sturdza Banking Group in their capacity as Investment Advisers to the Fund as of 12/02/19 and are based on internal research and modelling.

WARNING

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