



# E.I. Sturdza Strategic Bond Opportunities Fund

March 2019 Fund Commentary



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PORTFOLIO MANAGER

## MARKET DEVELOPMENT

In March, fixed income markets were volatile. They started the month on a negative note due to renewed optimism regarding Brexit and the US-China trade negotiations. In addition, during his Humphrey-Hawkins testimony, Jerome Powell mentioned the good shape of the US economy.

The ECB meeting revealed a very dovish monetary policy due to a sharp revision of its growth (1.1% instead of 1.7%) and inflation forecast (1.2% instead of 1.6%) for 2019. In the US, February job data disappointed (20'000 job creations instead of the forecasted 180'000), convincing the bond markets that any monetary policy normalisation was not an option on either side of the Atlantic. The Fed confirmed the ECB's very pessimistic mood with a dovish statement: to not implement any rate hikes in 2019 and to employ a less stringent Quantitative Tightening policy, slowing in May and ending in September. As a result, both US and European bond markets rallied, with the German 10y Bund back in negative territory.

## PORTFOLIO STRATEGY

During the month, the strategy of the Fund has not been modified. The Investment Adviser increased the weight of 2y US Treasuries and the weight of corporates yielding above 3% and maturing in 2019 (less than 1y). The team also invested a small amount in a 20y Peruvian bond (Lima Metro), yielding 5.47%.

## MARKET OUTLOOK

The Investment Adviser's outlook continues to be tied to two major topics, inflation and Central Banks' stand-point. Inflation risk remains subdued and the US yield curve keeps flattening. In combination with other topics such as trade war risks, this suggests that recession fears (or at least fears of a significant slowdown) are a major concern.

In the US market, the Investment Adviser believes that long US Treasuries are still attractive, considering that they could still be a top performing asset class in 2019 despite the rally already observed in Q1. A more inverted slope of the curve is not excluded in 2019. The team think that the best strategy today is to keep investing in short term corporate bonds and investment grade Emerging Market bonds yielding around 3.5% combined with 10y and 30y US Treasuries. The Fed's behaviour will be a key driver of the markets and bond yields will also depend on the evolution of equity markets.

In Europe, the team believe that the Bund will match the behaviour of US Treasuries', in addition, will perform well as recession fears will increase during the coming months. Brexit uncertainties will add some stress to the market. A QE2 will probably become inevitable in the Eurozone before the end of the year in the Investment Adviser's opinion.

In Emerging Markets, the team will continue to closely monitor the behaviour of spreads (both governments and corporates) in order to add some carry in the short term part of the portfolio. Spreads have widened substantially in 2018 and some Emerging bonds could still perform in 2019 despite the strong rally already observed during the first three months of the year.

## 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 plc.  
Registered in Ireland.

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In conclusion, the Investment Adviser still believes that the best performing asset class is a mix of short term Investment Grade corporates and long-dated US Treasuries. Very high-quality Emerging Markets as well as Bonds denominated in euro and hedged in US dollar offer a very attractive investment opportunity. According to the Investment Adviser, a mix of all these sub-asset classes will represent an opportunity to deliver a robust performance over the coming months despite a very low yield environment.

## AWARDS



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on last page.



## IMPORTANT INFORMATION

The views and statements contained herein are those of the Eric Sturdza Group in their capacity as Investment Advisers to the Funds as of 11/04/2019 and are based on internal research and modelling.

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