E.I. Sturdza Strategic Bond Opportunities Fund

April 2019 Fund Commentary

MARKET DEVELOPMENT

In April, two main economic statistics drove the US market. Unemployment figures were in line with the Investment Adviser's expectations (196'000 job creations and a 3.8% unemployment rate), whereas wages only grew by 0.1% instead of the expected +0.3% (after +0.4% during the previous month). The publication of the first quarter GDP growth was higher than expected at +3.2% instead of the forecasted +2.3%.

The US fixed income market did not react to this exceptional growth rate as it was mainly due to a higher change in inventories (+0.65%) and a better than expected net trade figure (+1.03%), thanks to a drop in the trade deficit. However, the traditional components, namely consumption (+0.82%) and investments (+0.27%), revealed weak figures. As a result, the conclusion was that inflation is still subdued and the strong Q1 GDP growth a one-off. According to the team, consumption, which still represents more than two thirds of GDP, must be stronger during the next quarters.

In Europe, inflation is still very low and the PMI indices relatively weak. The last ECB meeting revealed that the economic situation in the Eurozone is still a concern and that central bankers are trying to reduce the drawbacks of negative rates. The deposit rate remains at -0.4%, which is painful for the banking sector but the ECB did not reach a consensus on the topic. The month finished with two positive news flows: The S&P confirmed the BBB rating of Italy and the outcome of the Spanish elections was better than expected with the relative victory of the PSOE.

PORTFOLIO STRATEGY

During the month, the strategy of the Fund has not been modified. The Investment Adviser increased the weight of the US Treasury maturing in August 2020 slightly.

MARKET OUTLOOK

The Investment Adviser's outlook is tied to two major topics, inflation and Central Banks' stand-point. In the Investment Adviser's opinion, inflation risk remains subdued and the US yield curve inversion, combined with other topics such as the risk of trade war escalation, suggest 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 curve slope 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. The Investment Adviser believes that the Fed will probably be forced to ease before year end or implement a QE4 before Q2 2020. Other options, such as a rate peg, are also on the table.

In Europe, the Investment Adviser thinks that the Bund will match the US Treasuries' behaviour and, in addition, will perform well as recession fears will increase in the coming months. Brexit uncertainties will add some stress to the market. In the team's opinion, a QE2 will probably become inevitable in the Eurozone before the end of the year 2019.

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 plc. Registered in Ireland.

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In Emerging Markets, the Investment Adviser 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 but experienced a rally during the first quarter of 2019. Some Emerging bonds could still perform in 2019, led by the carry of their spreads. After this rally, capital gains could be limited.

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. Emerging Markets still offer an attractive opportunity to invest in very high-quality EM markets (but more selectively than in January). Bonds denominated in euro and hedged in US dollar are also a very attractive investment opportunity. According to the Investment Adviser's opinion, 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

CITYWIRE PLATINUM

CITYWIRE BRONZE

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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 10/05/2019 and are based on internal research and modelling.

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