



# Fund Update

April 2018

## Nordea 1 – US Corporate Bond Fund

ISIN: LU0458979746 (BP-USD)

### Market commentary

Treasury yields rose with the most damage occurring in the 'belly of the curve': T-Bills rose less than two through ten year issues. In fact, the ten-year bond approached 3.00% resulting in the widest spread to German Bunds since 1989. Supply certainly contributed to higher yields on government debt. The US Treasury Department announced that net borrowing in the first quarter reached USD 488 billion or USD 47 billion more than had been expected. Furthermore, the Treasury projected USD 75 billion of net new debt issuance from April through June of this year.

The pace of US economic activity slackened somewhat in the first quarter; GDP came in at a respectable 2.3% (down from 2.9% of the final quarter of 2017) as consumers spent less on clothing, cars, and footwear. However, the Bureau of Labor Statistics reported that compensation grew by 2.7%, and initial jobless claims dropped to the lowest level since 1969. Both stats contribute to a growing consensus that the US is at or near full employment and that wage pressures are not transitory. The core PCE (personal consumption expenditures) price index jumped 1.9% - close to the Fed's 2.0% target.

### Fund commentary

In April, the fund returned -0.78% and underperformed its benchmark, the Bloomberg Barclays Capital US Credit Index, by -0.13%<sup>1</sup>.

US corporate spreads tightened a modest 2 bps during the month to 108 bps over Treasuries, according to Barclays. However, the negative total return of the asset class reflected the sell-off in the rate market. Financials rebounded slightly from the prior month's underperformance and energy bonds benefited from the strong rally in crude oil prices. Most other industries experienced relatively minimal performance dispersion. However, long bonds lagged as the back-end of the yield curve sold off.

In terms of performance attribution, the portfolio's shorter duration and yield curve posture benefited results relative to the index during the month. On a spread basis, positions in refining and midstream, utilities and consumer cyclicals contributed positively to performance while banks, pharmaceuticals and technology detracted. The off-benchmark allocation to BB rated credit proved to be advantageous as BB spreads tightened 18 bps in April, outperforming higher quality credits, on average. Meanwhile, the portfolio's underweight to emerging market credit and non-corporate credit held in the benchmark had minimal impact on results.

Geopolitical concerns and central bank policies will likely be the dominant drivers of market sentiment over the near-term. Rising interest rates (helped by a hawkish Fed), a flattening yield curve, higher oil prices, increased tension with Iran, and trade wars between the US and China, Mexico and others should collectively keep the markets on its toes during the second quarter. These risk factors, coupled with softer-than-expected economic growth in the US, have temporarily overshadowed a healthy corporate earnings season that should otherwise be a catalyst for improved risk appetites.

As we have observed throughout this economic expansion, many of these risks factors typically create pockets of price volatility rather than lead to fundamental impairment across the fixed income issuer base. We believe today's environment can still offer attractive buying opportunities for patient investors. Importantly, we acknowledge that investor compensation is still relatively limited at current prices, and therefore chasing yield indiscriminately is not an appropriate strategy. Instead, we reaffirm our less aggressive targeted risk profile across portfolio styles. Downside protection remains paramount in an environment of elevated idiosyncratic risk and disruptive forces at play.

<sup>1</sup>) Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 31.03.2018 – 30.04.2018. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) in the currency of the respective share class, gross income and dividends reinvested, excluding initial and exit charges as per 30.04.2018. Initial and exit charges could affect the value of the performance. The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured.

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