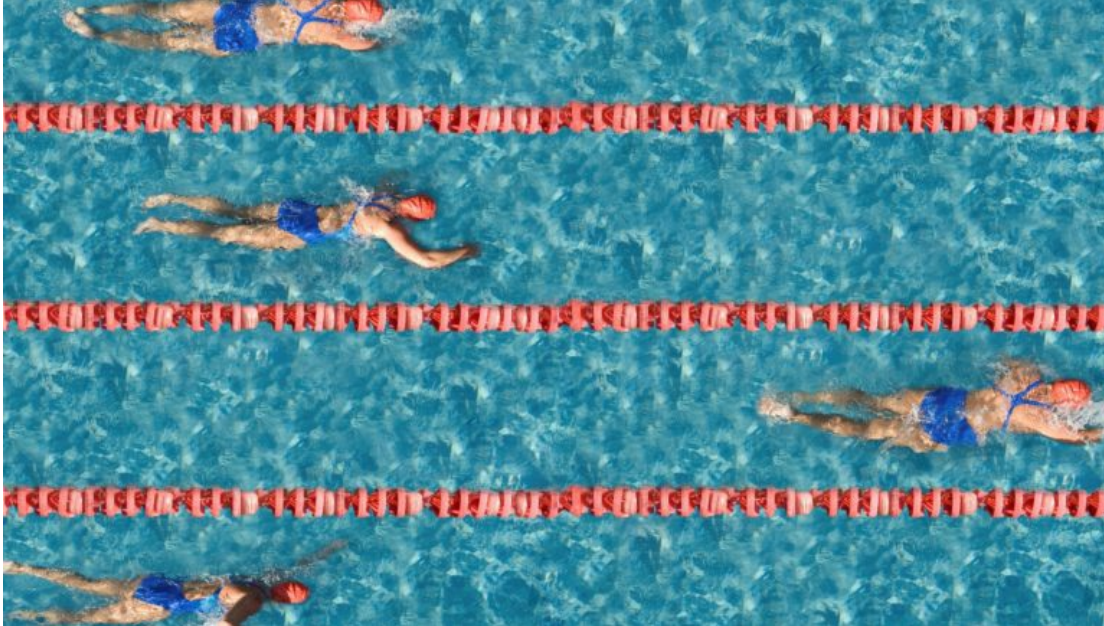


<https://blog.en.erste-am.com/corporate-bonds-short-maturities/>

Corporate bonds with short maturities

Paul Severin



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Bond investors are faced with a difficult environment. Do corporate bonds offer the chance of a halfway decent yield?

Stampfl: The statement that bond investors are faced with a difficult environment is actually an erroneous one. A balanced portfolio consisting of bonds from the peripheral countries and the core countries across all sectors would have seen a very good risk-adjusted performance in the past weeks and months. Also, complementing the BB segment with corporate bonds generates a certain degree of surplus yield, which in funds like Reserve Corporate causes is used to boost the development. That is like switching from winter tyres to summer tyres in spring. It facilitates a smoother running and lower fuel consumption. Or, translating it to the case of the fund, it results in a surplus yield at lower volatility.

In what areas/regions/sectors can you see the best chances?

Stampfl: Given the supporting measures taken by the ECB the market has seen a very solid performance of bonds. While going has become a bit harder already, we can still discover the odd jewel here and there. We can also see improved chances in the telecommunication sector again. The issuers are trying to cut their costs via consolidation. This results in lower debt and at the same time improves the balance sheet of the respective company. We expect the same thing to happen in the automotive sector. In terms of regions, we continue to prefer the peripherals to core Europe.

Do you prefer investment grade or high-yield bonds?

Stampfl: Investment grade bonds have experienced a fascinating performance since the bankruptcy of Lehman Brothers. At the beginning the segment was rather inconspicuous, but in the past three years it has established itself as new force along with the saturated government bond market. Bonds from the investment grade segment form the basis of ESPA RESERVE CORPORATE. In the corporate bond segment, the premium for possible future defaults of investment grade bonds is much higher than for high yield bonds. That being said, bonds from the high-yield segment are a very important part of the strategy in the current market scenario and within the framework of the terms and conditions of ESPA RESERVE COPRPORATE.

Are there any asset classes/regions/sectors that you are currently avoiding? If so, why?

Stampfl: Interesting question. What we can currently see is a complete shift of investment strategies in the bond market. Every larger central bank is trying to assert its agenda on the interest and currency market. This causes a race for the quickest interest rate cut that also fuels the bond market. It is best for investors not to go against the grain here, which means that fundamental analysis is taking a back seat for now. At the same time we can see quite a bit of movement in the oil price due to the lower demand and higher supply. While this causes the outlook for the manufacturing industry and the downstream economies to improve, it also leads to a deteriorating outlook for the energy sector, where volatilities are significantly elevated at the moment.

The fund focuses on corporate bonds with short maturities. What are the advantages and disadvantages of short maturities vis-à-vis long ones for corporate bonds at the moment?

Stampfl: The advantage of funds with short maturities is that their price spikes in the event of changes in interest rates are substantially less pronounced than those of their long-term counterparts. The disadvantage is the risk that in case of interest rate cuts, bonds with long maturities will outperform those with short ones. But as we are facing an environment of – although perhaps not immediately – rising interest rates, a fund with short maturity comes with clear advantages, as it is this sort of environment where this fund will be outperforming the fund with longer maturity.



Mag. Bernd Stampfl, Senior Fund Manager of Erste Asset Management (EAM)

When and by what extent do you think the Fed will increase its interest rates? What effects do you expect from the rate hike on the corporate bond markets and particularly on your fund? What is your positioning?

Stampfl: As I said earlier, we are currently experiencing a global trend of interest rate cuts. Every central bank is trying to ensure the competitiveness of its economy. If the interest rates are cut in Europe and this translates into weaker exchange rates, as a result of which the products can be sold more cheaply abroad, this will cause the pressure on the other central banks to rise. If the interest rates in Europe remain low while they are raised in the USA, US products will become more expensive on the European market. Therefore the Fed will pick the right moment to raise its rates. Predicting the precise point in time is tricky, given that the Fed will only raise interest rates once the economic recovery in Europe is picking up speed. But we are currently witnessing the relative fall in bond prices in USD relative to bonds from the same company denominated in EUR. The fund hedges the exchange rate fluctuations, but is happy to benefit from the benefits of the less costly bond.

You invest globally, but mainly in bonds denominated in euro. How good is the supply of euro bonds outside of the Eurozone? What sort of international companies issue euro bonds? Have you noticed any trends?

Stampfl: Since the European Central Bank started buying large volumes of bonds, we have noticed an increasing number of issues in euro from companies outside the Eurozone. Due to the low interest rates, they are able to take out debt at substantially lower cost here than for example in their home currency. Above all we are talking about globally operating companies here, for example Apple, AT&T, and Coca-Cola. But we are still in the early stages of this process and will see additional issues in the coming weeks.

Thank you very much for the interview.

The German special interest magazine DAS INVESTMENT was analyzing in a recent article (22.4.2015) among 140 funds the best investment solution for corporate bonds. The ESPA RESERVE CORPORATE achieved the first place: Congratulations to the fund management team!

dasinvestment.com

Further information about the fund: [ESPA RESERVE CORPORATE](#)

Advantages for the investor

- Broad diversification in selected variable-rate corporate bonds with good to average credit ratings.
- No currency effects due to currency hedging.
- Opportunity to earn attractive annual payouts.

Risks to be considered

- Prices of corporate bonds also depend on the company's financial performance (credit risk).
- The prices of corporate bonds are also influenced by credit risk (negative trend in the credit rating of the company or government).
- Capital loss is possible.

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Paul Severin

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.