

# Davy Global Bond Fund

Quarterly update Q1 2022

For Investment Professionals Only

Performance	1 Month (%)	Q1 2022 (%)	1 Year (%)	3 Years (P.A.) (%)	5 Years (P.A.) (%)
Davy Global Bond Fund (Net of Fees)	-2.35	-5.43	-5.43	-0.04	0.38
JPMorgan Global Bond Index <sup>1</sup>	-2.35	-4.88	-4.40	-0.27	0.32

Source: Davy Global Fund Management (Class A Acc Eur) and Bloomberg as at 31st March 2022

<sup>1</sup>The JPM Global Bond (Euro Hedged) Index shown above does not include fees or operating expenses and you cannot invest in it.

## Fund overview

The aim of the **Davy Global Bond Fund** (the 'Fund') is to protect capital against volatility, deflation and bear markets by investing primarily in global sovereign bonds.

## Market comment

Government bond yields moved sharply higher (prices lower) during the first quarter leading to a loss of 4.88% for the JP Morgan Global Bond Index (euro hedged). Bonds faced selling pressure as central banks became increasingly uncomfortable about rising inflation and signalled a desire to control it by tightening financial conditions via raising interest rates and ending bond purchase programmes.

The Russian invasion of Ukraine in late February added to existing inflation concerns, given its implications for commodity prices, and this contributed further to the bond selloff.

The combination of both the war and less central bank support in the future also hurt risk appetite. This resulted in the relative underperformance of many fixed income sectors, such as corporate and Emerging Market bonds, which give a pickup in yield over safer "risk free" government bonds.

## Fund performance

The Fund underperformed its benchmark, the JP Morgan Index (euro hedged), by circa 0.55% (net) on the quarter.

This was predominantly due to the Fund's corporate and sovereign credit positions, which detracted from performance as risk appetite waned and investors sold them. This selloff was particularly acute during the first couple of weeks of the Russian invasion of Ukraine. Although they staged a comeback in the latter part of March, they still finished down on the quarter.

Losses on these positions were offset somewhat by outperformance from the Fund's duration and curve positioning in US Treasuries and Japanese Government bonds.

## Positioning

The most significant event to take place over the past quarter has undoubtedly been the war in Ukraine. While it is first and foremost a tragic humanitarian crisis, it is also worth noting that it has also added a lot of uncertainty to the outlook for growth and inflation, particularly in Europe. At time of writing, there have been some welcome signs of de-escalation (our base case scenario). However, the situation in Ukraine remains serious and we believe tail risks remain considerable.

To compound matters, with central banks now guiding much more aggressive monetary policy tightening, at some stage this might call into question the strength of economic growth. Currently the world is experiencing a post-Omicron bounce which is helping to offset drags from higher costs. However, our view is that this won't last forever, and central banks could make the policy error of tightening financial conditions too quickly. Therefore, this is something we are monitoring closely.

To conclude, there is a lot of uncertainty right now and as a result we neutralised duration in March. We will remain neutral until there is more clarity on the situation in Ukraine and the global economy, or unless valuations make it more compelling to go long or short duration.

However, we believe there is significant bad news already priced into many spread markets and as a result we are comfortable keeping our overweight positions in Government Related Entities, Supranational, Municipal and Corporate bonds relative to benchmark government bonds.

Calendar Year Performance	2021 (%)	2020(%)	2019 (%)	2018 (%)	2017 (%)
Davy Global Bond Fund (Net of fees) (EUR)	-3.4	6.0	5.2	-0.8	0.4
JPMorgan Global Bond Index (Euro Hedged)	-3.1	4.9	4.6	-0.3	0.4

Source: Davy Global Fund Management (Class A Acc Eur) and Bloomberg as at 31<sup>st</sup> December 2021. Performance is quoted in local currency unless otherwise stated.

**Warning: Past performance is not a reliable guide to future performance. The value of the investment can reduce as well as increase and, therefore, the return on the investment will also be variable. Changes in exchange rates may have an adverse effect on the value price or income of the product.**

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