

# Davy Global Bond Fund

For Investment Professionals Only

Performance	1 Month (%)	Q2 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Global Bond Fund (net of fees)	-1.74	-5.58	-10.67	-2.72	-0.81
JP Morgan Global Bond Index <sup>1</sup>	-1.37	-4.78	-9.67	-2.63	-0.74

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc Eur) and Bloomberg as at 30 June 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.

The combination of less central bank stimulus and higher inflation, which has hurt consumer purchasing power, led to growing uncertainty about the economic outlook. This resulted in heightened volatility in financial markets and the relative underperformance of many fixed income sectors, such as Government Related Entities, Municipal, Corporate and Emerging Market bonds, which give a pickup in yield ("spread") over lower yielding "risk free" government bonds.

## Market comment

It has been another tough quarter for global bond markets with the JP Morgan Global Bond Index (euro hedged) falling 4.78% during the period. The poor performance of bonds can primarily be attributed to higher-than-expected inflation, exacerbated by the impact of the Russia-Ukraine war on commodity prices. This resulted in significantly higher interest rate guidance from central banks, which in turn pushed bond yields higher (prices lower) and contributed to the most elevated bond market volatility that has been seen since the Global Financial Crisis.

## Fund performance

The Fund underperformed its benchmark, the JP Morgan Index (euro hedged), by circa 0.80% (net) on the quarter.

The Fund's corporate and sovereign related credit positions detracted from performance as risk appetite disappeared and they sold off. In addition, the Fund's overweight position in US Treasuries underperformed as yields continued to go higher (prices lower).

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This was offset somewhat by the positive contribution from the Fund's overweight in German Inflation Linked Bonds, which rallied as inflation expectations rose, and its Japanese yield curve positioning.

## Positioning

It has been a difficult start to the year for the Fund. Coming into 2022 we reduced risk with the view that less central bank monetary stimulus would lead to corrections and we wanted to be in a position to add back to risk in the event of a sell-off. Clearly, we were right to be cautious, but we were not cautious enough.

Greater-than-expected inflation, exacerbated by the Russia-Ukraine war, has hit consumer purchasing power and resulted in a more rapid reduction in monetary support by central banks raising borrowing costs. These factors have weighed on growth expectations and caused even more financial market turbulence than we had originally envisaged, hurting remaining spread positions in the Fund.

In recent months we have become more cautious on the outlook. Central banks will have to be very careful that in order to try and tame inflation they don't push their respective economies into recession. Therefore we see macro and financial market volatility remaining high for the foreseeable future.

Given this uncertainty we have been averaging into a long position in US Treasuries in recent weeks. While we have been early and this has detracted from performance as yields have continued to climb, we believe they offer good value at current levels and think that they will be supported by growing recession risks which will help to dampen inflation expectations.

In addition in recent weeks we have reduced exposures to more volatile spread positions where we do not believe that risks are sufficiently priced-in. At the same time we have adopted a medium-term mindset in securities where we believe the sell-off is overdone and we are comfortable holding them at these elevated premiums through the noise.

<b>Calendar year performance</b>	<b>2021</b> (%)	<b>2020</b> (%)	<b>2019</b> (%)	<b>2018</b> (%)	<b>2017</b> (%)
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 December 2021. Performance is quoted in local currency unless otherwise stated.

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The Davy Global Bond Fund is a sub-fund of Davy Funds plc, an open-ended umbrella investment company with variable capital and segregated liability between sub-funds incorporated with limited liability under the Companies Acts 2014, authorised by the Central Bank of Ireland as an Undertaking for Collective Investment in Transferable Securities (UCITS). The Prospectus, Supplement and Key Investor Document for the fund are available in English from Davy Global Fund Management, Davy House, 49 Dawson Street, Dublin 2, Ireland or <https://iqeq.com/ucits>. Investors should be aware that some of the Directors of the Company (Davy Funds plc) are also employed by the Investment Manager, Promoter and Distributor. Further information in relation to the management of potential conflicts of interest is available upon request.

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\*Information correct as of 3 February 2022

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