

# Davy Global Bond Strategy

Quarterly Update Q2 2019

For Investment Professionals Only

Performance	1 Month (%)	Q2 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Global Bond Strategy* (Net of Fees)	1.14	2.42	4.76	0.20	2.03
JPM Global Government Bond Index**	1.10	2.29	4.73	0.13	2.39

Source: Davy Asset Management (Class A Acc Eur) and Bloomberg as at 28th June 2019.

\* The Davy Global Bond Fund was launched on 12th December 2014. Investors should note the Davy Global Bond Fund (UCITS) is newly established. The past performance reflects past performance data relating to the Davy Global Bond Fund (non-UCITS) which merged with the Davy Global Bond Fund (UCITS) (the "Merger"). Prior to the Merger when the Fund was not authorised as a UCITS, the investment policy, strategy and portfolio composition were largely the same. In the circumstances, the past performance data included in this document is believed to be an appropriate reference for investors.

\*\* The benchmark 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.

## Fund Performance

Global government bonds had a strong second quarter, returning 2.29% as measured by the JP Morgan Global Index (euro hedged), due mainly to global slowdown fears which led central banks to turn much more dovish. From a relative performance perspective, the Fund outperformed its benchmark (net of fees) during the period.

The main contributors to performance were overweight positions in Spain and Italy as their spreads tightened. This was helped by a more dovish ECB, which pushed yields lower and led investors to look for a pickup in yield offered by these issuers.

The one slight detractor from performance was an overweight position in US Treasury Inflation Protected Securities (TIPS) which declined on global slowdown fears.

## Positioning

Our two biggest concerns at the start of the year were that (a) the US Federal Reserve (Fed) would continue raising rates and choke the US economy and (b) the US China trade war would negatively impact on global growth. Thankfully we have had good news with the Fed, and

other central banks globally, which have turned more dovish and they are now signalling interest rate cuts are more likely than hikes.

However, the ongoing trade war remains a significant risk and negotiations could break down and tariffs could be increased at any time. This is negatively affecting business confidence and capital investment by companies and the risk is that it could spill over into employment decisions and subsequently consumer spending.

This suggests to us that a significant rise in yields is unlikely until we get either more clarity on a trade deal, or data confirming that business and consumers are coping with the uncertainty.

At the same time we believe that there is a lot of bad news priced in by markets, with four rate cuts priced in by the Fed between now and December 2020 and German Bund yields at record lows, suggesting that yields may find it difficult to fall further. Therefore, we believe there is a strong chance that yields may remain rangebound near current levels until we get more clarity. Therefore, the Fund is positioned neutral duration.

In the meantime, we believe the low yields currently available on benchmark bonds and dovish central bank actions, which are supportive of risk, make the current environment friendly for bonds offering a pickup in yield (spreads). Therefore, we remain overweight Italy, Mexico and other bonds offering a pickup in yield relative to the "risk free" rate.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Global Bond Strategy (Net of fees) (EUR)	-0.76	0.38	1.93	0.30	8.59
JPM Global Government Bond Index (Euro Hedged)**	-0.26	0.40	2.25	1.05	8.47

Source: Davy Asset Management and Bloomberg as at 28th June 2019. Performance is quoted in local currency unless otherwise stated.

\*\*The benchmark index shown above does not include fees or operating expenses and you cannot invest in it.

**WARNING: Past performance is not a reliable guide to future performance.**

**WARNING: Neither past experience nor the current situation are necessarily accurate guides to the future growth in value or rate of return of the Fund. 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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