

# Davy Global Bond Strategy

## Quarterly Update Q3 2019

For Investment Professionals Only

Performance	1 Month (%)	Q3 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Global Bond Strategy* (Net of Fees)	-0.73	2.83	8.89	1.14	2.29
JPM Global Government Bond Index**	-0.88	2.43	8.68	1.08	2.59

Source: Davy Asset Management (Class A Acc Eur) and Bloomberg as at 30th September 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. The J.P. Morgan Global Government Bond Index (GBI) series tracks fixed rate issuances from high-income countries spanning the globe.

### 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

Global government bonds had a very strong quarter, with the JP Morgan Global Bond Index (euro hedged) up 2.43%, as both trade war developments and economic data, particularly in Europe and China, disappointed.

These developments led many central banks around the globe to ease monetary policy. This was most notable in the Eurozone where the European Central Bank controversially cut rates further into negative territory and re-enacted its bond buying programme.

We believe a sustainable rise in yields is unlikely until there is a deal, or at least a truce, in the US/China trade war. We believe US and China will want to do a deal since the longer the trade war lasts, the riskier it becomes for the global economy and financial markets.

### Fund performance

The Fund had a good quarter, outperforming its benchmark by 0.40% (in euro net of fees). The Fund is now 0.64% ahead of its benchmark year-to-date as at the end of the period.

The biggest contributor to outperformance was the Fund's overweight position in Italy and Italian covered bonds. They benefited from the formation of a less populist and more Euro friendly coalition (Five Star Movement and Democratic Party) gaining power, in addition to the European Central Bank easing monetary policy.

The one slight detractor from performance was a small overweight position in US Treasury Inflation Protected Securities (TIPS), which

underperformed as the market increasingly priced in the risk of a global recession.

### Positioning

We believe the low (or even negative) yields currently in some bond markets 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 have increased our position in spreads during the quarter. We added Italy in Q4 last year as very much a non-consensus call and it has proven to be our best performer this year. Despite its large rally, we believe there is still value in this position and remain overweight. We also continue to be overweight Spain and Mexico.

Falling nominal yield levels and worries about a global recession are not good for TIPS and Inflation linked bonds. However, the recent correction in TIPS breakeven levels means there is medium term value, should the worst-case scenario be avoided.

While yields have risen in recent weeks, they are a long way from their 2019 highs. It would appear to us that bond yields are discounting a dramatic slowdown and, while we believe much of the fall in yields in August was due to technical factors such as the lack of supply and worse than normal seasonal liquidity, we think a sustainable rise in yields is unlikely until there is a deal, or at least a truce, in the US/China trade war.

We find it difficult to believe that President Trump won't want a strong economy heading into next year's elections, and therefore we think he will do a deal, or at least come to some sort of truce with China. That view would suggest that bond yields should go higher and make us consider moving from a neutral to a short duration position.

For more on the risks of a global recession please read "Does trusted 'barometer' mean a recession is imminent?" in the Insights section of our website or [click here](#).

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)**	-0.27	0.40	2.25	1.05	8.47

Source: Davy Asset Management and Bloomberg as at 30th September 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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**Davy Asset Management**

Davy House, 49 Dawson Street, Dublin 2, D02 PY05, Ireland.  
T +353 1 614 8874 E [assetmanagement@davy.ie](mailto:assetmanagement@davy.ie)

[www.davyassetmanagement.com](http://www.davyassetmanagement.com)

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