

AMC PROFESSIONAL FUND – AMC Pro International Bonds

Review

The eurozone sovereign debt crisis continued to dominate the headlines in Q4 2011. Yields on Italian and Spanish government debt climbed to their highest levels since the euro came into being, reaching 7.26% and 6.70%, respectively. Europe's political elite reacted to these developments by pressing ahead with programmes to bring fiscal policies more closely into line with each other whilst the ECB pushed through measures to stabilise the market, which helped to lessen the degree of systemic risk and stabilise Spanish and Italian bond rates. The quarter was a relatively calm one for US Treasuries on the back of the Fed's intervention at a time when economic statistics in the USA began to deliver some pleasant surprises: the housing market exhibited some signs of levelling off and employment continued to pick up. The corporates market underperformed, chiefly on account of spreads widening on banks' paper and fears over sovereign debt. The one exception in the credit-risk segment came from a positive return in the USA where spreads narrowed by 20bp. The sub-fund's Class B unit gained 0.72% during Q4 2011, compared to the benchmark's 0.81% increase. Currency exposure contributed 29bp for the sub-fund thanks to buying positions on the US and Australian dollars. In contrast, individual securities selections cost some 12bp, with Eksport Finance and FinMeccanica being principally to blame. The sub-fund's underweighting of short- and mid-dated maturities in Germany also penalised the return by 14bp.

Outlook

Central banks have been reacting energetically to bring stability back to financial market-places. This should work to the advantage of credit-risk instruments, particularly with regard to refinancing needs, and help to see spreads revert to more normal levels. Banks' strenuous efforts to bolster their capital structures through deleveraging or fresh fund-raising are positives for investors. With the cycle on the uptrend, this should see pressure building to push interest rates upwards, but structural forces will be at work to keep a lid on this pressure. Developed countries still have very high levels of debt in relation to their GDP, and this is having a direct feed-through impact by curbing growth. In this slow-growth climate, interest rates are only going to experience limited increases. In Europe, all the talk about the eurozone potentially falling apart at the seams or a simple recession will be likely to keep interest rates drifting sideways.

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