SKAGEN Tellus A

All data in EUR as of 31/03/2021 unless otherwise stated.

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Rising interest rates and inflation expectations

SKAGEN Tellus had a weak start to the year in absolute terms but did well relatively speaking. The largest positive contributors to fund performance were our investments in the US and the Dominican Republic thanks to stronger currencies. The largest detractors were our investments in Peru and the Czech Republic driven by weak currencies and rising interest rates. During the quarter we switched some exposure away from South Africa and the Czech Republic into the US and Croatia.

The rise in interest rates seen in developed markets since last summer accelerated strongly in the first quarter led by 10-year US government bonds. The yield on these bonds increased from 0.9% at the start of the year to almost 1.75% at the end of March. This was the largest 3-month increase in the 10-year rate since Trump was elected President in 2016. The increase was driven mainly by a rise in inflation expectations, but also somewhat higher real interest rates as the economic outlook improved with positive vaccine news.

The prospect of strong fiscal responses combined with still very accommodative monetary policies also boosted growth and inflation expectations in the US. The rising interest rates in the US spread to large parts of the world and we saw some sharp jumps in interest rates also in most emerging markets. The sharpness of the spike in rates induced several central banks to voice their intention of continuing with expansive monetary policies for years to come and some even increased the pace of their asset purchases to quell the bond market qualms. The sharp and wide increase in interest rates resulted in the worst monthly return for global government bonds since 1994 during the quarter.

How high will inflation go?
The big question during the quarter has been how high inflation in developed markets will be going forward. Although there is broad agreement that we will see strong growth in consumer prices in the short term, the longer-term picture is more widely debated. On the one hand, central banks are emphasising the transient nature of the price pressures we will see in the coming months. This is based on the fact that the price increases will largely be driven by so-called base effects (low prices last year as a comparison) and a temporary demand surge as the economy reopens. Central banks are therefore not overly worried about keeping their expansive monetary stance even in the face of rising prices.

The critics on the other hand believe that broad monetary expansion will lead to price pressures that will be hard to alleviate when or if they appear. We note that the markets seem to be pricing in the central banks' scenario in that short-term inflation expectations are higher than long-term expectations and all are within "normal" levels. In other words, no immediate inflation rush is priced in as of now. We also note that even though the reopening of the economy will lead to increased short-term pressure in the economy, several pandemic-related challenges will remain for some time.

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Photo: Unsplash

Small and medium-sized businesses to lose out
Unemployment levels are still high and many small and medium sized businesses (SMB) are set to have very weak financials on the other side of the pandemic. According to a recent report from the IMF, the increase in insolvent SMBs as a result of the pandemic may be as large as was seen after the financial crisis in 08/09, but during a much shorter time period. This has the potential to cause widespread job losses and hence more excess capacity in the economy. We do believe in higher inflation, but do not expect an extreme increase in the longer term.

Outlook
Although interest rates have increased sharply during the first quarter, levels are still at historically very low levels. We therefore see potential for rates to increase further in developed markets as economies reopen. Emerging markets will also experience upward pressure on interest rates if developed market rates increase, but the picture is more nuanced as interest drivers are more diverse. Improved economic growth will, for instance, help to improve credit worthiness and potentially lead to downward pressure on rates. We remain underweight duration compared to the benchmark, but see potential for strength in select EM currencies and rates.

Quarterly Report

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SKAGEN Tellus invests primarily in bonds and certificates issued or guaranteed by governments from around the world.

The fund is suitable for those with at least a three year investment horizon. Investors must be able to tolerate currency fluctuations.

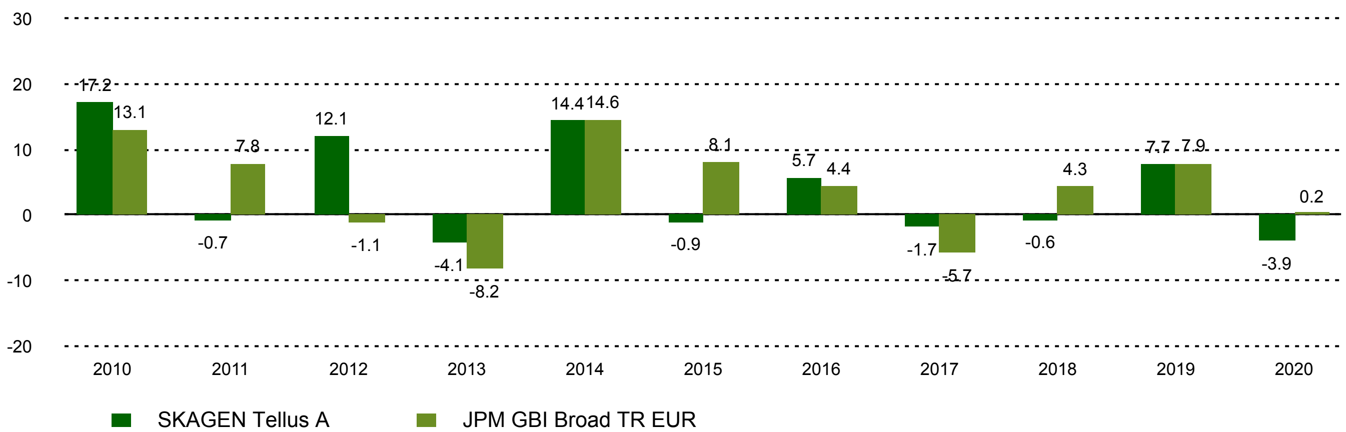
Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	10.26 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	49.47 EUR
Duration	4.13
WAL	5.43
Yield	3.06%
Number of holdings	15
Portfolio manager	Sondre Solvoll Bakketun

Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	0.9%	1.8%
Quarter to date	-0.2%	-1.2%
Year to date	-0.2%	-1.2%
Last year	3.4%	-5.7%
Last 3 years	1.2%	3.9%
Last 5 years	1.3%	1.5%
Last 10 years	3.0%	3.4%
Since start	3.8%	3.8%

Performance last ten years



Benchmark prior to 1.1.13 was Barcap Global Treasury Index 3-5 yrs

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Dominican Republic	4.13	0.13
Canadian Government	3.18	0.02
United Kingdom Gilt	4.87	0.00
Norway Government	2.79	0.00
City of Oslo Norway	0.96	0.00

Largest detractors

Holding	Weight (%)	Contribution (%)
Peruvian Government	7.46	-1.18
Czech Republic Government	6.83	-0.64
Mexican Bonos	6.10	-0.58
Romanian Government	6.09	-0.46
International Finance Corp	0.85	-0.27

Absolute contribution based on NOK returns at fund level

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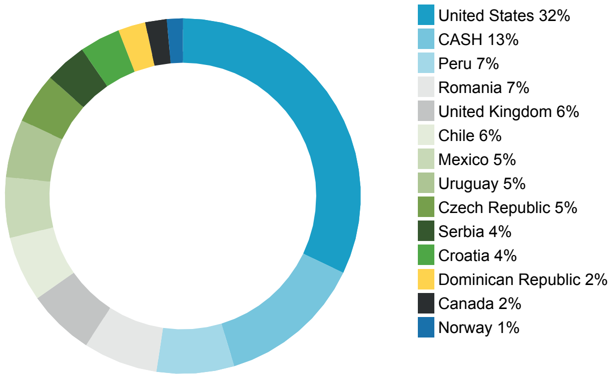
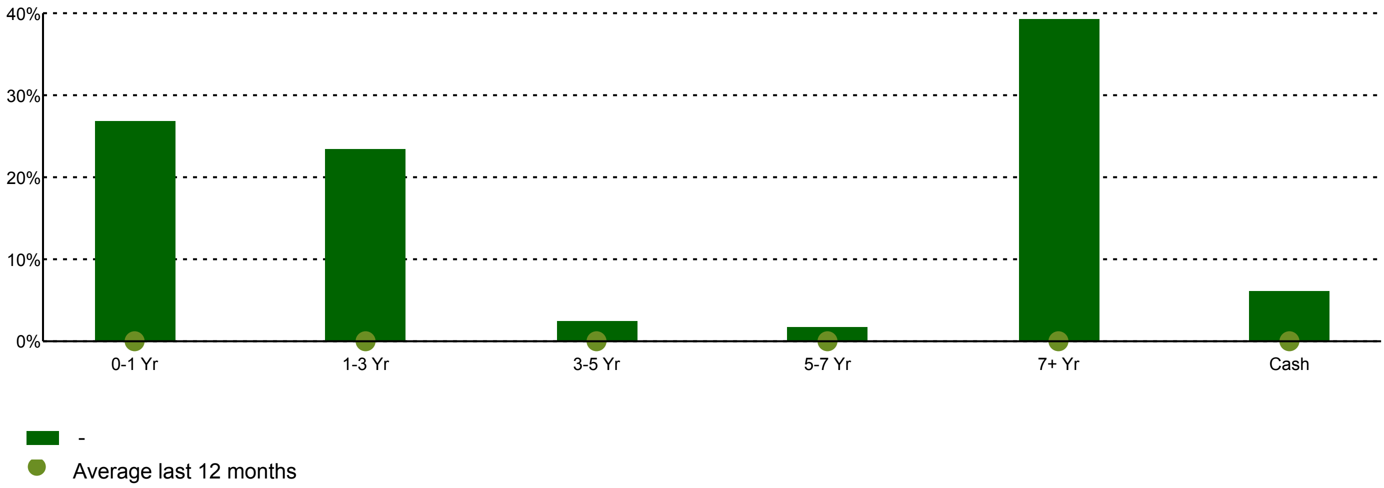
Top 10 investments

Holding	Percentage of Fund
US Government	32.1
Republic of Peru	7.0
Romanian Government	6.8
UK Government	6.1
Republic of Chile	6.0
European Bank for Reconstruction & Development	5.8
Mexico	5.5
Oriental Republic of Uruguay	5.3
Czech Republic Government	4.6
Republic of Serbia	3.8
Total	83.0

Country exposure



Maturity structure



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Important information