Strategic Bond Opportunities Fund

October 2022 Fund Commentary

Retail Marketing Communication / Publicité / Financial Promotion addressed to investors in the countries mentioned in the disclaimer, related to **E.I. Sturdza Funds plc – Strategic Bond Opportunities Fund** – (hereinafter referred to as the "Fund") a sub-fund of E.I. Sturdza Funds plc, an Irish open-ended umbrella investment Company with variable capital – UCITS ("the Company").

Market Development

October began with the unemployment rate reaching 3.5%, a record low. With more than 250,000 job creations, the labour market doesn't show any sign of recession. In addition, the unveiling of inflation figures; CPI at 8.2% but Core CPI at 6.6%, the highest level seen since September 1982, led the markets to forecast a 75bp rate hike on 2nd November. Record low unemployment and simultaneous record high core inflation mean that the ultra-hawkish monetary policy of the Fed will likely continue.

Only a few market participants, led by Charles Evans (Fed of Chicago) warned the central bank regarding the risks of moving too far and too fast in terms of adjustments to monetary policies; noting that a PCE Deflator at 6.2% and Core PCE at 5.1% show less alarming figures than the CPI.

If we consider that the most relevant inflation rate is the Core PCE (5.1%), if the Fed raises its Fed funds to 4% on 2nd November; and if we add another virtual 1% due to the impact of the Quantitative Tightening policy, the real Fed funds rate is not in negative territory anymore.

In Europe, following the unbelievable forced technical QE by the BoE to rescue a collapsing market in the UK, all eyes turned to the ECB. As anticipated, Mrs Lagarde announced a 75bp rate hike, but despite a Refi rate reaching 2% and a deposit rate at 1.5%, the ECB is still behind the curve.

Market Outlook

More than ever, we continue to follow the macroeconomic situation and geopolitical events and conflicts very closely. Inflation remains very high and growth has turned negative.

Recession is coming rapidly and the excellent behaviour of the labour market is, against all odds, a leading indicator of an imminent decline of the economy. The behaviour of the Fed towards rate hikes and Quantitative Tightening is a concern as many investors, and some FOMC members, believe the Fed is going too quick and too far.

We do not have any strong conviction on the famous level of pivot rate, as we still believe this debate is partially irrelevant, as we do not know the behaviour of the central bank towards the pace of Quantitative Tightening; which is at least as important as the level of Fed funds (perhaps more).

Should the Fed remain reluctant to be clear on the combined effect of rate hikes and QT, a Quantitative Easing program is more likely than a series of rate cuts in a 9-12 month horizon.

In the US, we believe that the Treasury curve will remain inverted, through the 2-10Yr and, more importantly the 5-30Yr. We are prepared to increase the duration slightly before year end if necessary. We will probably continue to invest in high quality-low duration credits, depending on the behaviour of Investment grade spreads, which are highly correlated to the

Eric Vanraes
Portfolio Manager

Investment Approach

The Fund is a diversified bond fund, investing in bonds predominantly denominated in USD, including Sovereigns, Supranationals and Agencies (together SSAs), corporate bonds across all sectors and financials. A strong conviction portfolio of 30-60 issuers, seeking exposure to all continents (including developed as well as emerging markets), all types of ratings from AAA / Aaa to BB / Ba2 (Standard & Poor's / Moody's) and non-rated bonds (10% maximum), senior or subordinated debt (hybrid corporates and Tier II bank debt) with either fixed or floating coupon rates.

Investment Objective

To achieve a total return through a combination of capital growth and income by investing in a globally diversified portfolio of fixed income securities.

A sub-fund of E.I. Sturdza Funds plc.

Registered in Ireland.

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evolution of equity markets. At this stage, reinvesting in Emerging Markets seems unlikely in the near-medium term.

As a result, we believe that the best strategy today is to invest in a selection of high quality corporate bonds, both in EUR and USD, favouring USD Investment Grade and keeping hybrid debt (both in EUR and USD). We are also considering increasing the duration slightly, depending on market evolution and central banks behaviour.

Fund Strategy

In October, we did not change our strategy and took the opportunity to increase the duration of the Fund slightly, with the purchase of a US Treasury maturing in 2027 and the sale of a US Treasury maturing in 2023 (switching from 1Yr in favour of 5Yr).

Ratings & Awards

Morningstar Sustainability Rating

Awards Disclaimer - The Strategic Bond Opportunities Fund - A USD share class has a Morningstar rating of 3 stars overall and 3 stars over 3 Years. Morningstar Rating™ as of 31/10/2022.

The Strategic Bond Opportunities Fund received a Morningstar 4 Globe Sustainability Award. Sustainability Rating as of 30/09/2022. Out of 1,976 Global Fixed Income funds as of 30/09/2022. Based on 96.41% of AUM. Historical Sustainability Score as of 31/08/2022. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score. Data is based on long positions only.

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