HP Invest

Long Term Danish Bonds - KL W

February 2019

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From an economic perspective, things could be much worse in Europe at this moment in time. Employment has improved, albeit at a slow pace, steadily over several years and lately, wages are beginning to show an upward trend. On top of this, bank lending has expanded over the latest period, finally succeeding to transmit liquidity surplus into client's borrowing.

However, none of this seems visible in private consumption which is staggering along, and not at all in industrial confidence figures that have fallen throughout the latest year. Service industries seem to be doing quite well, but markets now mirror a non-negligible probability of a soon to come recession.

This also due to a plethora of political issues that with varying intensity influence financial markets. The protagonist in several of these is Mr. Trump; negotiations on nuclear reductions with North Korea and with Iran, projected wall on the border of Mexico and trade conflicts with among others China, just to mention some.

Europe has problems of its own. Future cooperation frameworks between the UK and EU have still not been agreed upon – less than one month before the deadline(?). France has experienced massive demonstrations against the Macron administration, Italy on the verge of recession seems to be in opposition the EU, Western EU sees Polish and Hungarian development problematic; the ones the most enthusiastic about EU seem to be living outside the Union.

In the field of geopolitics, the Yemen situation is still critical, Israel (and Saudi) is concerned about Iran's increasing hegemony in the region and very lately armed conflict has erupted in Kashmir once again and an Indian fighter has been shot down over Pakistani territory.

The halt to QE operations for new money we expected to impact markets more noticeably. Counterintuitively, interest rates are at the lowest level for a year and, as liquidity is ample and equity markets have regained their losses since October, few dare to predict large increases in rates within the near future.

All these issues impact prices on Danish mortgage bonds that almost every day set new records. The ten-year annuity bond, 0.50 % 2030, now trade above par and consequently the very first zero-coupon, callable bond, 0 % 2030, has been introduced. In general, redemption activity is still muted; however, as 1.50 % 2050 bonds presently trade at prices just above 97, we would anticipate mortgage institutions to be planning a campaign motivating borrowers to refinance mortgages, presumably targeting coupons from 2.50 to 3.50 %.

Again, market sentiment seemed to favor bonds, including Danish mortgage bonds. As prices of on-the-run low-coupon bonds get near par, some anxiety amongst investors concerned about increased prepayments grows, because flipside of the coin is increasing supply in mortgage bonds, primarily callable bonds with long duration. This was not detectable in the performance in February, where mortgage bonds outperformed government bonds.

The fund is defensively invested, and invested primarily in mortgage bonds, and saw a gain of 0.40 % in the month.

Inflow to the Danish mortgage market from foreign investors continues but at a lesser degree than previous months.

For 2019 we expect a return around 0.25 – 2.25 %.

Return %	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg.
HP LTDB	8.06	7.70	5.70	10.09	5.39	0.36	5.51	-0.02	4.58	3.50	1.00	5.01
BM	6.91	5.71	6.86	10.66	6.52	-1.09	10.32	-1.17	5.51	3.61	1.52	5.42
Excess return	1.15	1.99	-1.16	-0.56	-1.13	1.45	-4.72	1.15	-0.93	-0.11	-0.52	-0.41

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	YTD
HP	0.47	0.40											**0.88**
BM	0.97	0.45											**1.42**
Exc. Rt	-0.50	-0.05											**-0.54**

Fund information

ISIN:	DK0061026465	Subscriptive fee:	0.10%
Type:	Distributive	Redemption fee:	0.10%
Inception date:	18-05-2018	Risk indication:	3 of 7
		Currency:	DKK

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