Euro High Income Bond Fund

As political turbulence lessened, fears of a global recession dissipated, and the manufacturing cycle seemed to be heading for a turnaround following a 'phase one' agreement between US and China, the outlook for 2020 vis-à-vis economic growth, although limited, seemed positive.

Economic data improved whilst yields, portraying the possibility of a broad economic recovery, advanced. Albeit the recent uptick, yields have once again dropped following the coronavirus outbreak in Wuhan, China.

Fearing the economic damage from the fast-spreading pneumonia-like virus, investors shunned global equities and sought the relative safety of sovereigns, widely considered as the safer asset, sending yields, to the panicky lows reached a few months ago.

Ensuing to the latter shift, and subsequent increased demand for safe assets, the benchmark 10-year German Bund tumbled by 27.5 basis points, to -0.434 percent, for the first time since October; a period characterised with weak economic data, and a prolonged US-China trade war, which at that point in time, showed no signs of abating.

In order to shed further light on the direction of the European economy and its recovery, markets eagerly awaited economic data points. The region's Manufacturing PMI was revised higher to 47.9 in January 2020, above December's 46.3, whilst the Services PMI edged lower to 52.2 and below market estimates of 52.8. Meanwhile, Eurozone's inflation rate rose to 1.4 percent year-on-year in January 2020, in-line with market expectations, and up from 1.3 percent in the previous month. It is worth noting that the latter rate is the highest since June, and was mainly boosted by an increase at a faster pace for food, alcohol, and tobacco.

Notably, during their January meeting, the governing council of the European Central Bank (ECB) left the key interest rate on the main refinancing operations steady at 0%.

Furthermore, on the political front, Boris Johnson led Britain towards an exit out of the EU, after a 47-year membership. Upon the news, which have somewhat diminished uncertainties, the UK 10-year yield edged higher to 0.53%.

Looking at the fixed income asset class per se, government bond yields continued to trade within a range, as investors continued to be conditioned by the better than expected economic data. Indeed, the mostly sought benchmark, the German Bund closed the month at -0.19 percent, up from -0.28 percent at the beginning of the same month. The risk-off mode in the last days of the year was also reflected in risky bonds with European HY registering a monthly gain of 0.97 percent.

The CC Euro High Income fund closed the month on a strong tone by locking in a 1.6 percent gain, thus outperforming its internal comparable benchmark by circa 0.63 percent, while the fund posted a 7.5 percent performance net of fees for 2019. The main outperformance was brought about by Aldesa, the Spanish construction company, which saw its' price surging following the announcement that China Railways will be acquiring 75 percent of the company. Furthermore, the higher beta names, such as CMA CGM, the French container and shipping company, continued to perform well on easier trade tensions, in addition to the announcement by the company of asset disposals.

Moving into 2020, the Manager believes that returns within the fixed income space will be primarily generated through the carry trade. Central Banks will continue to be accommodative, a positive for credit markets, however one should also consider the current tight spreads at which risky assets are trading. In this regard, the Manager will continue to adopt its bottom-up approach in order to identify value.

Global High Income Bond Fund

The U.S. economy headed into 2020 on a solid footing, with growth settling back to the roughly 2% pace that has prevailed during the decade-old economic expansion.

With the December 15th deadline looming large and UK elections on the brink of taking place, December, as expected, proved to be an eventful month on the political front.

As anticipated, tensions between the U.S. and China significantly eased towards the end of the year, when the two nations agreed a phase-one deal to ratchet down the trade war, this boosting confidence and lessening uncertainty across markets. The news came after 20 months of on-and-off negotiations and tariff escalations that unsettled markets and damped global economic growth.

The agreement between the world's two largest economies, amongst other, commits China to; buy at least $40bn worth of U.S. agricultural goods annually, tighten protection for U.S. intellectual property, and prohibits the forced transfer of technology from U.S. corporations. In exchange, Washington agreed to cut back on tariffs previously introduced, whilst agreeing not to proceed with a new escalation in levies on Chinese consumer goods.

Although a phase-one deal proved important to avoid a direct impact on the consumer at large, some of the biggest sources of strain in the bilateral relationship, such as China's use of industrial subsidies and state-owned enterprises were left at bay, leaving these thorny issues to a later stage.

From the macroeconomic front, the U.S. reported a slightly lower Manufacturing PMI to 52.4 from 52.5 in December. Meanwhile, U.S. services PMI was revised higher to a five-month high of 52.8 from a preliminary estimate of 52.2, and higher than November's final reading of 51.6. In addition, from the employment front, the number of Americans filing for unemployment benefits edged down by 2,000 people, to 224,000, beating market expectations.

Meanwhile, the U.S. Treasury Yields continued to trade within a range, with the 10-year reaching a high of 1.954 percent for the month, following the risk-on mode on a U.S.-China phase one agreement. Albeit hovering at higher levels when compared to recent months, the U.S. Treasury yields are relatively still depressed, when compared to the levels at the beginning of the year, mainly following the announcement by the Fed that rate hikes will be paused, thus maintaining a more accommodative stance. Global HY bonds closed-off the year on a strong note, as investors re-shifted their assets to the more risky segments.

The CC Global High Income fund closed the month up 0.93 percent, while on a year-to-date basis it posted a 10.3 percent gain with strong risk adjusted metrics when compared to its peers. In the month, the Manager opened an exposure in Extended Stay Hospitality, a classified REIT, which operates within the budget hotel industry. A BB- rated credit story with cash flow visibility, which translates in benign credit metrics. Furthermore, additional weightings to the meat industry were added through Marfrig, as the credit story continues to improve on the basis of a turnaround in the Brazilian economy, in addition to the boost in sales triggered through the Asian swine flu, which impacted positively the sector.

Moving in 2020, the Manager believes that the EM space might offer more pockets of value. Given a maintained accommodative monetary stance, a stance which EM Central Banks are also following suite, EM HY bonds should continue to offer value. Furthermore, selective U.S. HY will continue to offer value and thus the Manager believes that through a diligent bond picking process, the fund should continue to perform well in 2020.

Emerging Market Bond Fund

As fears of a global recession have now dissipated and the manufacturing cycle possibly seems to be heading for a U-turn in the first half of 2020, the latter two; stemming from a phase-one deal set to ratchet down the trade war, emerging markets, due to their reliance on thriving world trade, were expected to benefit.

With the December 15th deadline looming large, December, as expected, proved to be an eventful month on the political front. As anticipated, tensions between the U.S. and China significantly eased, when the two nations agreed a phase-one deal to ratchet down the trade war, this boosting confidence and lessening uncertainty across markets. The news came after 20 months of on-and-off negotiations and tariff escalations that unsettled markets and damped global economic growth.

From the data front in the emerging market world, China reported a drop in its leading indicators, specifically in the Manufacturing and the Services PMIs. China's Manufacturing PMI fell to 51.5 in December from 51.8 in the previous month, amid a marginal rise in exports. Similarly, Services PMI fell to 52.5 from a seven-month high of 53.5. Albeit a slight drop in the growth rates envisaged in the previous month, purchasing activity rose for the sixth month in a row.

Meanwhile, in December, in a bid to further boost economic growth, and thus recover the country's sluggish economy, Brazil's Central Bank cut its Selic rate, for a fourth straight meeting, bringing borrowing costs to its lowest on record, at 4.5 percent, also leaving the door open for additional easing. Following Brazil's Central Bank decision, S&P Global Ratings revised Brazil's outlook to positive from stable, boosting sentiment and placing Latin America's largest economy a step closer to its first sovereign credit rating upgrade since 2011.

In the month of December, EM credit posted a 1.7 percent gain as investors continued to seek higher returns through EM allocations following the announcement that a phase 1 deal would be signed in early 2020. The CC EMBF fund gained 1.5 percent in the month following the positive moves experienced in its underlying holdings, namely Brazilian credit stories that upheld their upward trend in prices. A trend, which kicked-off in the late 2018 following general elections won by Bolsanaro, which promised reforms and which indeed are being implemented. In the month, the Manager increased its exposure to the Chinese property market, specifically in Logan properties, which continues its improving credit trend boosted by its capability to register higher than expected sales.

EM HY credit should continue to perform well in 2020, as central banks within the EM region remain accommodative, while the ability of fiscal expansion within the EM region should be also supportive. The Manager will continue to seek pockets of value by also possibly, exploring the Frontier market region, with some interesting stories on its radar.

Euro Equity Fund

After a stellar 2019, risk markets began the new decade in a good mood, before volatility picked up towards the end of the month. Concerns over the coronavirus outbreak checked the stock market optimism that followed the signing of a phase one trade deal between the US and China. Markets were less perturbed by the brief flare-up in tensions between the US and Iran, which de-escalated swiftly. Economic data across regions continued to show signs of improvement and, with major central banks set to remain accommodative in the coming year, near-term recession fears appear to be subsiding.

In a month where equities were down, the S&P 500 continued its leadership of major stock markets and was flat over the month. Emerging market equities were most affected by the coronavirus outbreak and fell 4.7%.

The Investment Manager is of the view that in the short term the markets will experience high volatility. For this reason, the cash levels in the fund have increased to take advantage of any opportunities that arise. The Investment Manager remains of the opinion that the names held within the fund will continue to benefit in the medium to long term.

Global Balanced Income Fund

After a stellar 2019, risk markets began the new decade in a good mood, before volatility picked up towards the end of the month. Concerns over the coronavirus outbreak checked the stock market optimism that followed the signing of a phase one trade deal between the US and China. Markets were less perturbed by the brief flare-up in tensions between the US and Iran, which de-escalated swiftly. Economic data across regions continued to show signs of improvement and, with major central banks set to remain accommodative in the coming year, near-term recession fears appear to be subsiding.

In a month where equities were down, the S&P 500 continued its leadership of major stock markets and was flat over the month. Emerging market equities were most affected by the coronavirus outbreak and fell 4.7%.

Meanwhile, the U.S. Treasury Yields continued to trade within a range, with the 10-year reaching a high of 1.954 percent for the month, following the risk-on mode on a U.S.-China phase one agreement. Albeit hovering at higher levels when compared to recent months, the U.S. Treasury yields are relatively still depressed, when compared to the levels at the beginning of the year, mainly following the announcement by the Fed that rate hikes will be paused, thus maintaining a more accommodative stance. Global HY bonds closed-off the year on a strong note, as investors re-shifted their assets to the more risky segments.

The Investment Manager is of the view that in the short term the markets will experience high volatility. For this reason, the cash levels in the fund have increased to take advantage of any opportunities that arise. The Investment Manager remains of the opinion that the names held within the fund will continue to benefit in the medium to long term.

Malta Government Bond Fund

Core government bond yields trended north in the month of December, as investors switched to risky assets on the basis that the U.S. and China agreed a phase-one deal to ratchet down the trade war in addition to positive PMI figures. The U.S. Treasury Yields continued to trade within a range, with the 10-year reaching a high of 1.954 percent for the month. Likewise, the German Bund moved upwards, closing the month at -0.19 percent, up from -0.28 percent at the beginning of the same month.

The CC Malta Government bond fund closed the year just shy of 9 percent, following the upward moves in yields experienced in the latter part of December, moves which were mitigated as the Manager opted in maintaining a slightly lower duration than its' comparable benchmark, also supported by higher cash levels.

Moving into 2020, Government bonds should be supported by an accommodative ECB, while one should also be mindful of a turnaround in economic data points, which however the Manager still believes that clarity of a bottoming out is still blurred. In this regard, the Manager will continue to manage the fund's duration in line economic developments.

Malta Balanced Income Fund

In January the Malta Balanced Income Fund increased by 0.31%. Volatility was low for the month and as subscriptions continues to grow, the IMs continue to put money to work in both fixed income and equities. The exposure to equities increased from 32% to 35% as cash was invested in stable companies paying an attractive dividend as well as potential capital gains.

As at the end of January, the fund had a 48 percent exposure to bonds, 35 percent exposure to equities and 17 percent exposure to cash. The cash position will give the IMs an opportunity to strength those positions which they believe will generate alpha to the fund's performance.

The IMs are confident that the selected local companies will continue to benefit and will continue to strive to capture this positivity and translate it in gains for shareholders. The IMs plan is to continue adding to the current allocations should markets permit.

Approved and issued by Calamatta Cuschieri Investment Management Limited, Ewropa Business Centre, Dun Karm Street, Birkirkara BKR 9034. Company registration number C53094. Additional information can be found at www.cc.com.mt