



Fund Update

May 2018

Nordea 1 – Swedish Bond Fund

ISIN: LU0064320186 (BP-SEK)

Market commentary

Incoming macro data for May was, just like in April, a little mixed, suggesting that we are around an economic peak. However, there has been very little focus on macroeconomic aspects; rather, the market has mainly focused on the political turbulence surrounding the Italian election. The Riksbank will hold its next monetary policy meeting at the beginning of July, and our main scenario is that it will stick to the rate path from its meeting at the end of April, i.e. an initial hike to the repo rate in the fourth quarter this year. We therefore expect the low-rate environment to persist, which ought to bode well for the fund return, both absolute and in relation to the benchmark.

The bond market in Europe was highly volatile in May, due to the political turbulence surrounding the Italian election. Swedish bond yields followed German rates downwards. The downturn was greater for the long maturities, with the 10-year rate down 0.25 percentage points. Yields on mortgage bonds followed the dip in rates, while credit risk premiums on corporate bonds increased somewhat.

Fund performance

In May, the fund returned +1.13%¹, and its reference index, the JP Morgan Sweden Government Bond in Swedish Kroner – Total Return Index, returned +1.34%.

At the end of the month, the fund had a slightly higher interest rate risk than its benchmark. The fund has an overweight position in covered mortgage bonds and corporate bonds. With current credit risk premiums, we are convinced that both mortgage bonds and corporate bonds still continue to offer relatively good risk-adjusted return. The rate decline benefited the fund's return in both absolute terms and in relation to the benchmark index. The fund's exposure to mortgage and corporate bonds also had a positive impact on fund return. Our current view is that the low-rate environment and low volatility will persist, which ought to benefit the absolute and relative return of the fund.

At the end of May, the fund's interest rate risk (modified duration) was at 7.4, and the average credit rating stood at AA.¹

1) Source (unless otherwise stated): Nordea Investment Funds S.A. Period under consideration (unless otherwise stated): 30.04.2018 – 31.05.2018. Performance calculated NAV to NAV (net of fees and Luxembourg taxes) in the currency of the respective share class, gross income and dividends reinvested, excluding initial and exit charges as per 31.05.2018. Initial and exit charges could affect the value of the performance. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured.**

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