



*Media and customer information*

## **Oil price revival boosts Nordic high-yield bonds**

The Nordic high-yield market has recovered considerably with the help of rising oil prices. DNB anticipates a continued increase in oil prices and likewise a continuation in the upward trend on the high-yield market.

**5 June 2016.** The deterioration of oil prices had a negative impact on Nordic high-yield markets, pushing up credit spreads and reducing returns. Due to the dramatic drop in oil investments and therefore future output, a recovery of the oil price was only a question of time for DNB. As early as the end of January, the managers of the 'DNB SICAV High Yield' fund had made arrangements to be able to profit from a countermovement. Even in January, DNB was advising investors with a long-term investment horizon to build up initial positions. It worked. Since the low at the end of January, the market price of crude oil barrels has increased by 70%. The development of the oil price has had a corresponding impact on the fund. The fund price rose by 3.1% in March, by 2.7% in April and by a further 1.68% in May.

### **Brightened mood**

'Recent months in the high-yield segment have been characterised by strong stock price gains and a narrowing of spreads,' says Hagen-Holger Apel, Senior Portfolio Manager at DNB Asset Management in Luxembourg. According to Apel, this has been supported by both increasing crude oil prices and a generally improved mood among high-yield investors. Optimism has increased in the entire fixed-income segment.

The Nordic high-yield market is worth almost 30 billion euros and is primarily composed of issuers from Norway and Sweden. More than half of the high-yield bonds on the market originate from issuers who receive their orders from the oil and gas industry, which means an active portfolio management approach is necessary to achieve optimised diversification.

### **Weak currency helps**

The sub-sectors 'Exploration' and 'Production' have particularly benefited from narrowing of the spreads since the end of January. Svein Aage Aanes, Head of Fixed Income: 'The major part of the reduction in oil investments has already taken place. We expect investment levels to bottom out in 2017 and start increasing again thereafter. There is still overcapacity in the industry and profitability will still be low for some time to come but the bottom of this cycle is coming closer and the market always moves before the bottom is reached. There are also other positive elements in the market - the issuers in sub-sectors such as "Shipping", "Seafood" and other export sectors benefit from the weakening of the Norwegian krone, as they generate the majority of their returns in foreign currency.'

There is a good chance that the support from the oil price will continue. 'We are working on the basis of a continued increase in the price of oil and are sticking to our targeted price appreciation of 65 to 80 US dollars per barrel in the next 18 to 24 months,' says Apel.

As expected, the Brexit result is currently causing significant turbulence on the market in all asset classes. The effects are correspondingly greater in the EU and the UK, but the Nordic high-yield market has also been affected. In an initial statement following the announcement of the Brexit decision, Svein Aage Aanes described these price fluctuations as an opportunity for investors.

### **Access to the market**



Access to this market has recently become simpler for both professional and small-scale investors. Since 11 November 2015, the 'DNB High Yield' has been on the market as a fund in accordance with Luxembourg law (SICAV). The product with the ISIN LU1303786500 is a tax-transparent mirror fund of the DNB High Yield fund that has been available in Norway since 2012.