Asgard Credit Fund Nets Ten Percent in January

Stockholm (HedgeNordic) – Seeing equity hedge funds deliver double-digit returns in a single month is not unusual, but having a fixed-income-focused vehicle achieve such returns is impressive. Asgard Credit Fund, a Copenhagen-based hedge fund investing in corporate credit markets worldwide, netted a ten percent gain in January, recouping last year's losses in one single month.

In a brief interview with HedgeNordic, portfolio manager Daniel Vesterbaek Pedersen *(pictured)* discusses the market turmoil of the fourth quarter, outlines the main drivers of his fund's January performance and shares his market views for the current year.

Youngest Member of the Asgard Family

Asgard Credit Fund, launched in October of 2016, represents a replica of Moma Advisors' flagship hedge fund, Asgard Fixed Income Fund, which earned an average annual return of 13.2 percent since launching in mid-2003. Pedersen says the newest fund aims to "harvest credit risk premia by investing in liquid global credit markets." Credit spreads have historically exceeded realized default losses by mid-single digits every year on average, with this excess return widely termed as the credit risk premium.

According to Pedersen, Asgard Credit Fund focuses "on the lower end of the investment grade spectrum and the higher end of the high-yield spectrum," arguing that credit risk premia are more readily available in these segments due to investor fragmentation in credit markets. On average, the hedge fund leverages up to four times via credit default swaps to increase credit exposure, predominantly focusing on North American and European credit markets.

Fourth-Quarter and January Performance

Asgard Credit Fund ended 2018 down 9.1 percent, reflecting an 11.4 percent decline in the final quarter of the year. "The fourth-quarter performance reflected excessive credit spread widening due to investor concerns over slowing global economic growth and the aggressive tightening by the Federal Reserve," explains Pedersen. The portfolio manager of 2017's "Rookie of the Year" award winner says the losses were triggered by a market event rather than a change in fundamentals, arguing that the "market reaction in the fourth quarter was not based on fundamentals but driven by an erroneous perception of changes in economic fundamentals." "Long-term actual fundamentals are more important," he emphasizes.

The January surge of ten percent, meanwhile, was not a mere rebound in Asgard Credit Fund's previously-hit positions. The team led by Pedersen made two moves that helped the young fund achieve this laudable performance. First, "we bought cheap out-of-the-money options on the credit market because we felt the market reaction during the final quarter was overdone," says Pedersen. Second, Asgard Credit Fund reduced its net exposure to European high-yield and raised the exposure to U.S. high-yield instead, because high-yield spreads on the North American continent increased more sharply than in Europe during the quarter.

Pedersen reckons that this market reaction was unreasonable, considering that "export-dependent economies like China, Japan and Germany are more vulnerable to the ongoing trade negotiations than more closed and independent economies like the US economy." "The performance in January was also supported by a strong liquidity position in the portfolio. This enabled us to navigate and add new positions to the portfolio during the selloff in the fourth quarter," the portfolio manager adds.

Thoughts on 2019

Commenting on the market outlook for 2019, Pederson says that "an outcome of a no-trade deal between China and the United States this year is improbable, and we expect a trade deal to be signed somewhere during the third quarter." A framework agreement on trade, which would set up a mechanism for US-China talks on solutions to trade issues, may be in place in the next couple of months, reckons Pedersen, which "would reduce investor concerns and dampen market volatility." While the team's base scenario stipulates lower credit spreads towards the end of the year, Pedersen says "there are many events such as Brexit that can turn out badly in 2019."

With Asgard Credit Fund already up 12 percent year-to-date through mid-February, Pedersen believes "a 15 to 20 percent return this year is not unrealistic." After fully outweighing the losses incurred during 2018, a normalization of credit spreads will likely assist the young hedge fund to reach a return in the mid to high teens for the year.