
Coeli High Yield Opportunities â?? Year End and 2025 Outlook

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As we close the books for 2024, it is evident that the Nordic corporate bond market experienced a robust year. Historically high returns were driven by falling credit spreads across most sectors. Swedish real estate companies performed best, supported by abating concerns regarding refinancing problems as central banks began to cut interest rates. In addition, investor appetite was good with sustained inflows into Swedish and Norwegian corporate bond funds throughout the year.

A significant feature of the year was that several central banks began to lower their key interest rates as inflation finally fell back. Among the larger players, both the US Federal Reserve and the European ECB chose to lower their interest rates by 1 percentage point. The Swedish Riksbank acted in the same spirit and took the repo rate all the way from 4% to 2.50%.

In contrast to the short-term interest rates, long-term government bond yields increased. For example, the interest rate on both Swedish and German ten-year bonds rose from about 2% to around 2.5%, the interest rate on American ten-year bonds concurrently rose from just under 4% to 4.6%. Thus, the spread between short and longer maturities increased, this is typically beneficial for fixed income managers and is something that we might benefit from in 2025.

During 2024, the fund was managed with a cross-over mandate under the name Nordic Corporate Bond Fund and the new name with a focus on [high-yield bonds](#) was only introduced in December. The fund had a strong year in absolute terms with a return of approximately 7.6%, marking its best annual performance since its inception in 2014. Although the year ended well, it was not without challenges such as an unexpected bond restructuring announcement at a debt collector company. In comparison to our peers, performance was close to the median for the year.

So, what can we believe and hope for in 2025? The yield-to-maturity in the portfolio is just under 6% as we enter the new year and is expected to be increased in the first quarter as the portfolio focuses on high-yield.

Given the strong market development last year, we expect coupon payments to be the major driver of returns. Valuations in the broader European and American markets appear relatively tight and offer limited upside from further tightening. Considering this, we focus on minimizing drawdown risk in the portfolio while on the look-out for company-specific credit improvement opportunities.

In the portfolio, we find many interesting companies that are considered to offer good return potential in 2025 relative to the risk level. Klarna Bank for instance can be highlighted for its return to profitability during last year and an exciting 2025 with preparations for a potential IPO. Among recent additions to the portfolio, MacGregor, the global market leader in cranes in the maritime environment, is considered to have solid prospects due to a large installed base and a significant service business.

The primary market is predicted to be in full swing in Q1 and we expect to add a couple more attractive companies to the portfolio.

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