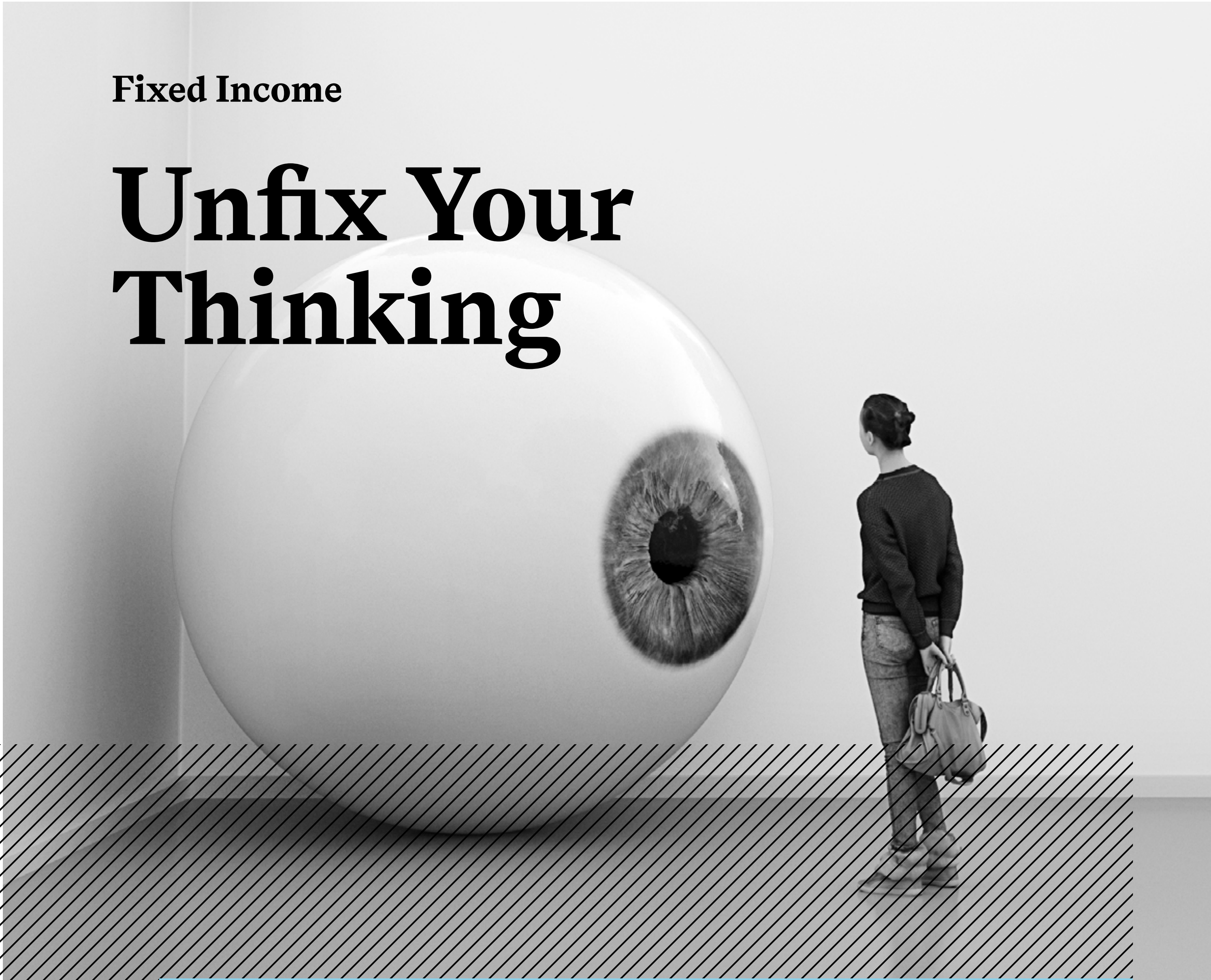
Vontobel

Fixed Income

Unfix Your Thinking



9 questions for our Fixed Income experts

Bonds, one of the most diverse asset classes there is, remain as attractive as ever for investors willing to take an active look.

While the search for income can entail risks, there are many attractive areas of the market. We can help you discover the right segments for you.

Looking For Answers?

Our experts answer nine income-related questions from professional investors across the globe.

Meet Our Experts

Mark Holman
Chief Executive Officer
TwentyFour Asset Management
(a Boutique of Vontobel Asset Management)

Simon Lue-Fong
Head of Fixed Income,
Vontobel Asset Managment

Find out more: vontobel.com/fi2021

1 With interest rates so low (and even negative), what role does Fixed Income have in a portfolio?

Duco Slob
Senior Portfolio Manager SRI,
InsingerGilissen

Mark Holman: Fixed Income has long had a place in smart investors' portfolios.

Even now, it offers some valuable attributes that make it an important part of a well-balanced portfolio.

For example, it can:

- Help combat/reduce volatility
- Deliver income
- Provide diversification

2 With more than 30% of the bonds universe offering negative yields, where should clients invest?

César Gil Cano
Head of Funds and Absolute Return,
Bankia Asset Management

Simon Lue-Fong: Let's look at the other side of that:

+ 70% positive yielding

This means 70% is positive yielding. So the cup is over two-thirds full. Of course, a large chunk of that is barely positive, low-yielding bonds. The trick is to find the right bonds.

We believe credit makes sense for many investors. But, for safety, avoid issues in the CCC area, as that's where most defaults arise.

For yield, we'd look to the emerging markets and corporate credit asset classes where there's still plenty of pockets with substantial yield to be found.

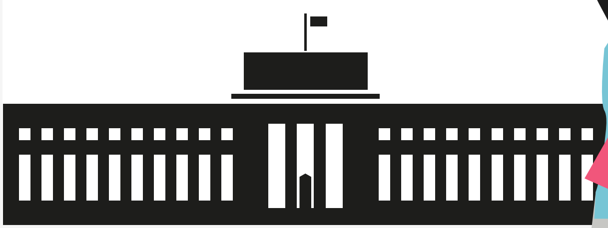
3 What could drive credit spreads higher, and is duration the biggest risk for a credit investment in 2021?

Anna Radenovska
Head FI Asset Management,
VZ Depotbank AG

Mark: In our view, by far the biggest risk to credit in 2021 remains a shock in relation to the COVID-19 pandemic. The rollout of various vaccines should support a robust economic recovery. However, this could change if, for example, a new variant of the virus threatened a return to normality.

Interest-rate duration has come more into focus with the Democrats taking control of the US Senate, boosting the prospect of further stimulus. While we do see inflation ticking up in 2021, we don't see it becoming an issue in the near-term.

There is considerable slack in the US labour market, so it is hard to see wage pressures prompting the Fed to tighten monetary policy.



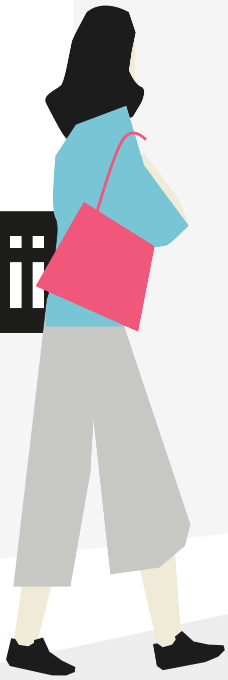
4 There seems to be consensus that the US dollar will weaken in 2021. What currency positioning makes sense for a euro investor in 2021?

Rüdiger Sälzle
Managing Director,
FondsConsult Research GmbH

Simon: The US dollar is a key factor for EM, so euro-based investors need to pay close attention to that.

Broadly speaking, the US dollar should be weaker through 2021. Many emerging market currencies repriced massively in 2020 and there is still plenty of potential for EM currencies to progress. This means the much-maligned local-currency market in emerging markets has potential in 2021.

For euro investors we would say taper your expectations for currency appreciations, but take advantage of the growth and value available in EM local currency bonds.



5 Where are you seeing opportunities in EM? Hard or local currencies, or even corporates?

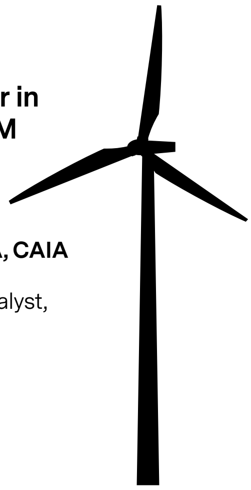
Samantha Dovey
Investment Management,
Ravenscroft.

Simon: Look to EM corporate bonds. In our experience, the great thing about emerging markets is that the perceived risks are often higher than the actual risks.

With the less-liquid corporates, it takes time for them to come back, but it does come back, when the market starts to price it correctly. We've now reached a point where people are beginning to come back and high-yield emerging corporates still look attractive, in our view. The repricing is still in play.

With many EM fund managers if there's uncertainty in the air, they tend to invest it in the liquid stuff. When the markets are completely blossoming, that's when they start going down the risk curve. That's usually the worst time to go in. We're still in the repricing phase with EM corporates, which is great for active investors like us.

6 How do you factor in ESG criteria for EM countries?

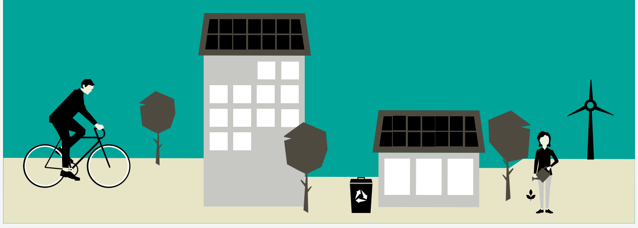


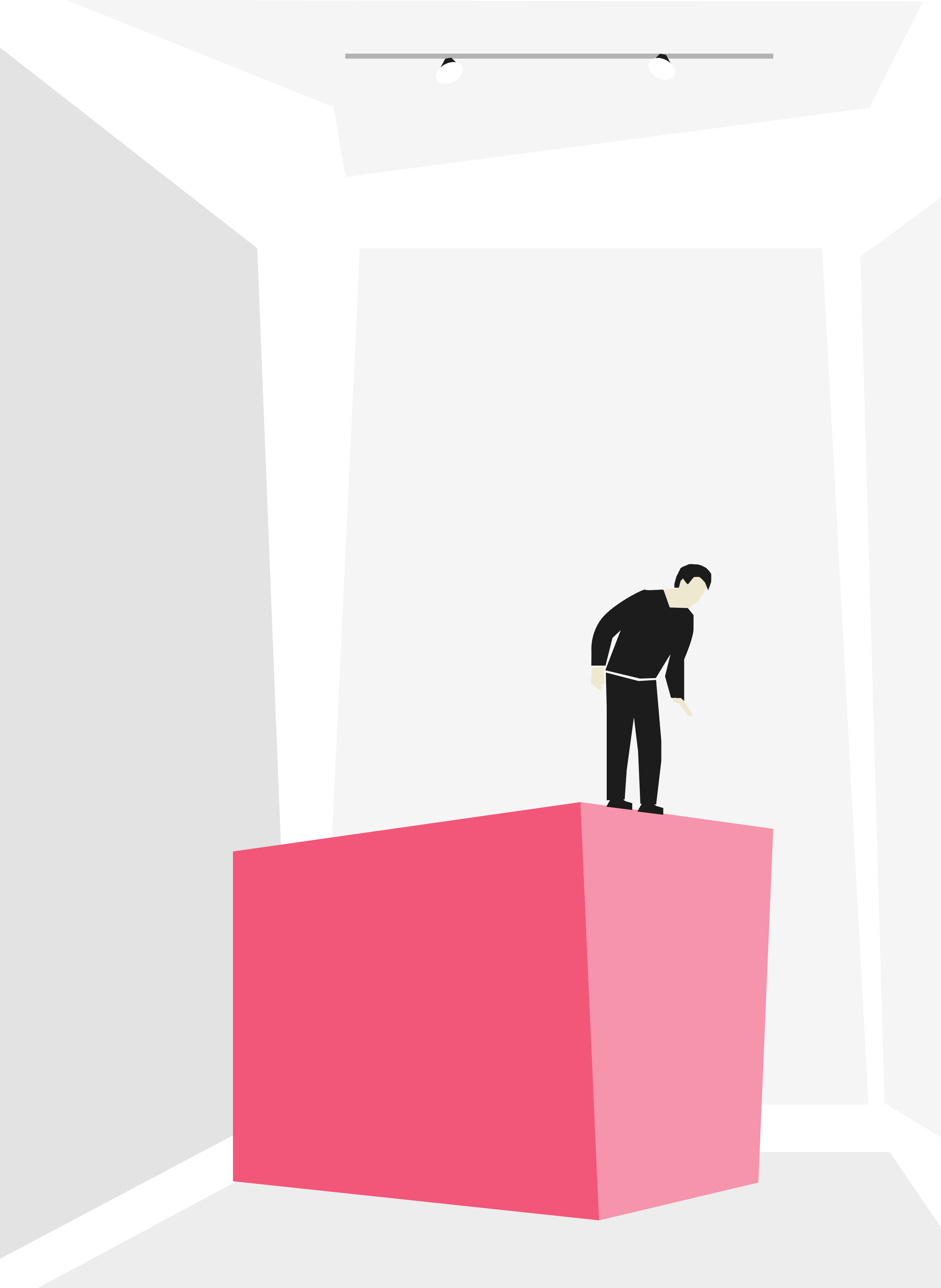
Maxime Ricomes, CFA, CAIA
Senior Multi-Asset
Multi-Management Analyst,
Aviva Investors France

Simon: ESG is (and will become even more of) a key criterion in the decision-making processes of investors. We think the starting point is to accept that EM should not be judged on the same basis as developed markets.

We believe that with EM the direction of ESG travel is important. We're looking for countries that show a willingness to improve ESG. It's the momentum that's matters: how they manage and implement ESG criteria.

For this, Governance is where investors can monitor and assess how well countries and companies are implementing ESG into their daily operations.



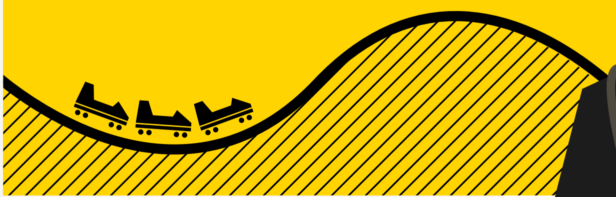


7 Since spreads narrowed in high yield and there was no wave of defaults, do these bonds offer attractive risk / returns at current spread levels?

Rüdiger Sälzle
Managing Director,
FondsConsult Research GmbH

Mark: We think there are still basis points to play for in high yield. Income has become a very scarce commodity; with cash rates near zero and looking well anchored, we believe that the demand for income in this decade can be fulfilled by credit.

However, it doesn't mean you can just buy everything. I would expect to see defaults rise to around 7% in the US and 5% in Europe before dropping again towards year end. As a result we think a healthy dose of caution is warranted in the very lowest ratings bands, where historically the overwhelming majority of defaults have come from.



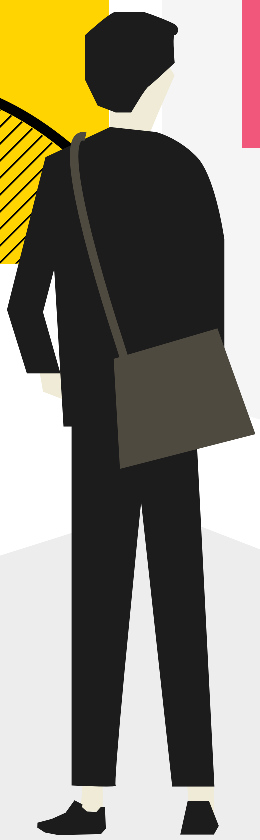
8 Are there certain asset classes / sectors that investors should avoid?

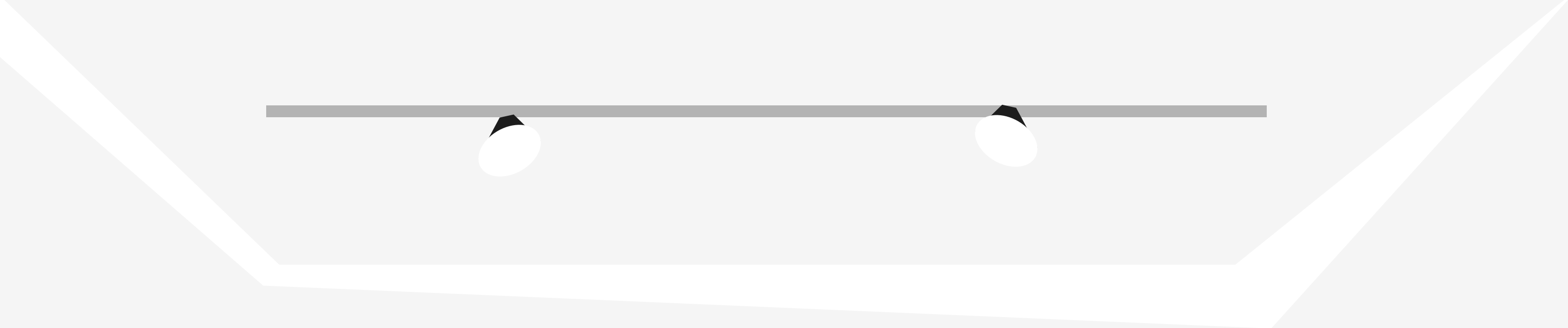
Wealth Manager
US Offshore

Mark: We would be wary of longer-dated government bond debt as yields reset higher. Similarly, high-quality corporate debt may not have enough spread to compensate for this movement. Investors should be wary of confusing a cyclical downturn with structural change:

- Travel and hospitality faced a cyclical downturn. But...
- Sectors like retail and automotive were already under pressure from structural change pre-COVID. Whilst...
- Commercial property faces accelerated structural change.

Then there's regulatory change. Sectors that required assistance in 2020 may face regulatory change to try to make them more resilient for the future. In the medium term, these changes could present a new range of opportunities for bondholders.





9 As an active manager, what levers are you going to use to deliver attractive returns despite low initial yields?

Andrea Florio
Head of Market Intelligence, Banca Generali

Simon: Active management is about being able to respond quickly to changes in economic and market conditions, both to try to protect our clients from emerging risks and to try to make sure they can benefit from opportunities.

High Conviction to Seek Out Returns

We're high-conviction investors, we're not benchmark huggers. As yields stay low, active management becomes a bigger part of the potential overall returns.

Look Bottom-Up to Find True Value

Specific to us in Vontobel: we're bottom-up investors and given how challenging the macro situation has been, it's bottom-up investors that have done well and we think that will continue.

We have found that by having a bias towards the bottom-up, really knowing and having conviction in the names we invest in, we're able to discover true value in the market.

In this environment, as an investor, you want someone who is active and knows where the real value is.

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