



## John Calamos: inflation risk heralds time of high quality HY

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High quality high yield is not an oxymoron according to veteran convertibles investor John Calamos Senior, who is turning his attentions to near investment grade credit in order to weather a challenging fixed income market where inflation risk is growing.

Speaking to Citywire Global from his US headquarters in Illinois, Calamos, who runs five funds across different asset classes, said the sovereign bond market has become distinctly unattractive but there is still considerable appetite for accessing high yield among investors.

'We are of course seeing that the fixed income market has been very difficult,' said Calamos, who runs the Calamos Global Convertible Opportunities and the UBAM Calamos US Equity Growth funds.

'It is a market where you can say "Gee, I can go out and get a 10 year bond and get around 2% but if there is any kind of inflation I'm going to get a negative return", so it is really challenging.'

'That has made it difficult for pension funds and conservative investors to find income and the outlook has been very, very challenging. So we felt, in the mid-to-long term, it is going to be high quality, high yield which performs.'

It is this clamour for higher yielding bonds, Calamos said, that led the company to create a Ucits version of its long-standing US fund the Calamos Global High Income Strategy which was launched for European investors last month.

'I think the risk of inflation is something we and a lot of people are concerned about as one assumes if inflation does come quickly and interest rates go up then what will happen to the bond market?'

'That is one of the risks and obviously a sudden rise in interest rates would not be good for the bond market but we think it would be less harmful in the areas where we are buying bonds.'

In the fund, Calamos is seeking to capitalise on his firm's own credit analysis and locate bonds on the cusp of being investment grade but are currently undervalued by the market.



'We are looking, for example, at bonds we think, according to our own analysis, should be a B but aren't. It is a diverse portfolio and it is really company focused, so we want to find mid-cap companies which are seeking growth.'

'This is far more conservative than straight high yield. We are not rolling the dice, we look for where we think we can get a 6-7% coupon and we are looking for duration of around six years.'

Calamos said with an average duration of six years it has a lower interest rate risk attached than many of its peers.

At present, around 80% of the fund is concentrated in the US market but Calamos does have the option to invest in Europe and the emerging markets. However, he said there is no incentive in these regions to extend exposure beyond 20% at present.

Tackling one major talking point which has come to fore as late, the veteran investor dismissed concern of over-heating in the high yield bond market.

'Whenever a market does well for more than two months it is called a bubble by some people. We watch valuations very carefully and one of the ways we do that is to look at the spreads between investment grade and non-investment grade bonds. If it becomes too narrow, we are not getting paid to take the risk and don't go for it,' he said.

The Calamos Global Equity fund has returned 49.9% over the past three years. Over this period, its Citywire benchmark, the FTSE World TR EUR, rose 48.3%.

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