

CURRENT FIXED INCOME CONCERNS

Ask the PORTFOLIO MANAGER

What concerns do you have for the bond market today?

Transcript of a video recorded on November 30, 2017.

Matt Freund, Co-CIO, Head of Fixed Income Strategies, Senior Co-Portfolio Manager, outlines his current fixed income concerns: high debt levels, inflation and non-U.S. developments including global central bank policy and the strength of international markets, and liquidity.



MATT FREUND
Co-CIO, Head of Fixed Income Strategies, Senior Co-Portfolio Manager

I worry a lot about problems that generally don't happen but they are concerns out there that we think about and think about strategies to protect ourselves from. So, the first one has to do with the level of debt. So debt levels around the world are actually higher today than they were pre-crisis. And what that means—when you have high levels of debt it means you have a much smaller margin of safety, that a policy mistake or a disruption can have amplified negative effects.

The second thing that we worry about is inflation. So far inflation has been notable because of its absence. If inflation were to return, and that's not our expectation, but if it were to happen it would really force central banks' hands in a lot of ways and force them to raise rates even though the economies around the world might not be strong enough to do so. That brings us to our third worry and the third worry has to do with non-U.S. developments. So we're very home country-biased unless you fight it and it's really hard to do. So there's a lot going around on around the world and we've seen the headlines so that's obvious. But there's more subtle things going on around the world that are a concern.

The first one has to do with central bank policy. It is our strong belief that global central bank policy has had a greater impact on the U.S. markets than Federal Reserve policy over the last six to nine months. If central banks around the world were to tighten aggressively we think we would feel it here. And then the other thing has to do with just that—the strength of international markets. So you read a lot of articles about German elections, about the strength of the Australian housing market, China and how durable it is there. It's hard to be an expert in all of those locales.

And then the last worry—I think this is the most important—is liquidity. So liquidity is like oxygen: when you have it abundantly, you never think about it. But when it goes away—you develop problems really quickly. And we think that there's a risk in the market today. Whether it's momentum strategies, whether it's risk parity strategies, whether it's some of the short vol strategies, they all depend upon a buyer being there when they need it and that's not assured. So these aren't likely concerns but I think they're important for investors to think about.

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Video recorded 11/30/2017.

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