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APRIL 2019

# ACTIVE FIXED INCOME
# SNAPSHOT DESK VIEWS

The following viewpoints represent Insight's active (i.e. relative to a relevant market or cash benchmark) positioning views on a strategic (long-term) and/or tactical (three-month horizon) basis as stated. Although they generically inform the activity across Insight's active fixed income portfolios, positioning will vary by strategy and therefore may differ from the information presented here. If you have any queries please do not hesitate to contact us.

## SUMMARY OF POSITIONING

In government bond markets, we continue to have a modest flattening bias in the US and core Europe and retain our short duration positioning in Italy. Our long position in US inflation markets is now more modest given valuations. In cash credit, we continue to believe valuations look better in European investment grade than in US dollars, while credit default swap index valuations look somewhat stretched. High yield looks tactically attractive given inflows from the loan market and scant net supply in Europe. In emerging markets, we continue to see most value in high yield sovereigns.

## EUROPE

In core Europe, we have a yield-curve flattening bias, although we have reduced it recently following significant market moves. In peripheral Europe, we continue to believe Italy is an accident waiting to happen, although perhaps not until September or October.

Following the delay to Brexit, we believe the risk of a 'no deal' Brexit by accident still cannot be ruled out. As two extensions have already been approved by the EU, seeking a third may result in some further political tensions. The outcome remains highly uncertain with the probability of a myriad of potential options – including a general election, no Brexit and a no-deal outcome – all essentially unchanged. In the midst of this uncertainty, the market is struggling to price a no-deal scenario. We continue to have a broadly neutral UK duration bias.

## INVESTMENT GRADE

In euro credit, we believe valuations look attractive on a relative-value basis and the market has been supported by sizeable institutional flows, with Japanese investors notably returning in considerable size. The technical picture has also been strong, given the dovish tilt in global monetary policy. We have added risk to move closer to neutral credit risk from underweight.

Sterling credit has been supported by inflows as well as limited supply. A significant proportion of our UK-focused exposure is secured or heavily covenanted. We believe the extension of Brexit to 31 October has provided a breather to the market for now and (even though Brexit outcomes ultimately remain uncertain) may present a window of opportunity for attractive relative-pricing between sterling and US dollar and euro credit to adjust in the near term.

## HIGH YIELD

We continue to have a positive bias towards high yield. There has been a return of 'tourists' (from investment grade) into BB credits. This is partly due to less appetite for floating-rate assets allowing high yield to benefit from flows out of the loan market. There has been virtually no net supply in Europe, although a few deals are expected. That being said, the primary market has been dominated by refinancings, with any M&A or leveraged buy-outs directed towards the loan market rather than high yield.

## LOANS

We have a less positive view on the loan market, which has lost flows to high yield as appetite for floating rate instruments has decreased. The US market has seen notable retail outflows and a relatively muted outlook for collateralised loan obligation (CLO) creation is less positive for demand. On the positive side, supply has also dried up. We view it as an earn-the-carry environment, as valuations look close to fair value to us.

## ASSET-BACKED SECURITIES

We are less tactically negative on CLOs and have generally stopped reducing our exposure. Current spread levels look relatively attractive with BBBs trading around 400bps, while AAs are in the mid-200bps. Supply has been limited, and what has come to market has been oversubscribed. In our view, relative value versus other credit markets looks attractive.

## EMERGING MARKETS

We remain constructive on the asset class and our most positive view is still in sovereign high yield. We also have a long in local rates, although we have recently reduced the position modestly. In terms of FX, we feel the asset class is lacking directionality, so we see the least compelling value opportunities here.

## CURRENCY

In our view, there has been limited opportunity in currencies, as volatility has been low. As such, we have relatively constrained positions and would prefer to wait for better opportunities. We are long the Australian dollar and the Japanese yen.

## IMPORTANT INFORMATION

### RISK DISCLOSURES

**Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

Portfolio holdings are subject to change, for information only and are not investment recommendations.

### ASSOCIATED INVESTMENT RISKS

**Fixed income/Currency**

Where the portfolio holds over 35% of its net asset value in securities of one governmental issuer, the value of the portfolio may be profoundly affected if one or more of these issuers fails to meet its obligations or suffers a ratings downgrade.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

The issuer of a debt security may not pay income or repay capital to the bondholder when due.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Where leverage is used as part of the management of the portfolio through the use of swaps and other derivative instruments, this can increase the overall volatility. While leverage presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. Any event that adversely affects the value of an investment would be magnified to the extent that leverage is employed by the portfolio. Any losses would therefore be greater than if leverage were not employed.

Currency hedging techniques aim to eliminate the effects of changes in the exchange rate between the currency of the underlying investments and the base currency (i.e. the reporting currency) of the portfolio. These techniques may not eliminate all the currency risk.

### FIND OUT MORE


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