

WHERE NOW FOR GLOBAL BOND MARKETS?

Exposure to alternative assets, unloved areas and short durations are all ways bond investors might achieve returns in 2014, according to fund managers from Meriten and Insight.

HEADWIND OR TAILWIND?

Monetary policy, especially in the US, will be a major factor in the performance of the world's bond markets. Investors need to look at how bond funds are being managed to ensure they are not over-exposed to liquidity shocks.

BE READY TO CHANGE DIRECTION

When the outlook is uncertain, flexibility will be vital. Strong risk management, careful timing of exposures and investing in highly liquid assets could be the key to navigating volatile markets.

TAKE THE BIRD'S-EYE VIEW

The managers believe the direction of bond markets will be determined by macro trends.

LESS FAR TO FALL

Renault believes long-dated bonds carry too much risk for the yields on offer.

In this environment of low absolute yields, short duration assets such as short-term European high yield corporate bonds and asset-backed securities (ABS) may provide more attractive risk-adjusted returns.

SAFETY FIRST

Short-dated assets not only help to reduce volatility*, they are easier to sell quickly than long-duration bonds – or can simply be held to maturity. Short-ended ABS's could also withstand huge write-downs before actual capital loss is incurred.

PACK A RESERVE

Investors might consider newer bond alternatives, such as contingent capital (cocos), designed to convert into shares if or when a pre-set trigger is breached. Considering regulators' interest in shoring up bank capital, new hybrid assets like cocos could be increasingly important.

HIGH EXPECTATIONS

Both managers see many positives for bond markets in 2014. Continued low interest rates, low inflation, low rates of default and economic recovery in Europe will assist bond investors, helping to offset the volatility that may result from government policy.

Insight
INVESTMENT

Adam Mossakowski: Fixed Income Manager at Insight Investment Management

Insight Investment Management Limited (Insight) is a London-based asset manager specialising in investment solutions across liability driven investment, absolute return, fixed income, cash management, multi-asset and specialist equity strategies.

Meriten
INVESTMENT
MANAGEMENT

Alexis Renault: Head of High Yield at Meriten Investment Management

Meriten Investment Management has an adaptable investment approach that combines fundamental and quantitative analysis. The firm is a specialist in European fixed income, equity and balanced mandates.

“ Investors need to be acutely aware of how bond funds are being managed to ensure they are not overly vulnerable to liquidity shocks ”

ALEXIS RENAULT, HEAD OF HIGH YIELD AT MERITEN INVESTMENT MANAGEMENT

* There can be no guarantee that reduced volatility will be achieved/maintained.

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