BNY MELLON

# April LaRusse: Fixed income in 2017

Inflation should definitely be back on the radar and it is really an opportunity for those who can invest in inflation linked government bonds. Inflation has been really absent for years in the major economies and as growth has not been particularly strong and as the economies have been enjoying the benefit of very low oil price. But with oil trying to find an area to stabilise the year on year impact on the data is disappearing and so you're starting to see inflation normalise. Also of course in areas where we've had decent growth and full employment you're naturally starting to see some of that spare capacity in the economy used up and the inflation coming back. Finally, the other impact has been currency depreciation where countries have seen big moves and their currency weaker. That of course will also tend to lead to inflation.

Corporate bonds are looking very interesting relative to government bonds and the main reasons are the environment that companies are operating in is really a good environment. They have very low interest rates so very cheap financing. They have decent levels of growth and they have the assurance that interest rates are likely to stay at these lower levels for some time. They can access capital markets, and on the whole corporates aren't running with too much leverage. So really, the environment for corporate bonds to perform better than government bonds is still very much alive and well. Liquidity is likely to be an issue and it's been an issue for some time. We have seen new issuance increase in Europe and in the UK on the back of quantitative easing, mainly because suddenly it's become even cheaper for companies to issue bonds and why not, they can lock into cheap long-term financing. It's a very smart thing to do for corporates.

So increased issuance will help. But liquidity overall is patchy and we will go through times when frankly it appears that it's just very difficult to actually buy the bonds you want. The fundamentals in emerging markets are just better. You know, we've seen some big, fundamental improvements and you are getting a lot more yield for the risk of investing in those markets and that's … those are areas that we think investors should be looking at. The more interesting esoteric areas within the fixed income market at the moment, where we see the most compelling value is the asset back securities market, particularly European collateral where we've seen excellent performance to underlying collateral.

That market has been made more interesting by the ECB actually buying that asset class as well as part of quantitative easing. We think there's a lot of value in the short data to high yield bonds, a slightly more specialist way of investing in that market. But we think that there's some very interesting opportunities there. We also see value in the emerging markets and local currency debt as well as emerging market corporate bonds where fundamentals are generally very much improved in those economies and the yields are compelling, particularly in a world where there's not much yield to be had. So those are the areas that we think investors should be looking for value.

**Important information**

**The value of investments can fall. Investors may not get back the amount invested.**
**For Professional Clients and, in Switzerland, for Regulated Qualified Investors only.**
**This is a financial promotion and is not investment advice.**