

Aberdeen Standard Investments

Luke Hickmore – Low yields so why fixed income?

- The fund is organised around a thematic approach, which creates structure
- Policymaker influence is very important and some people are missing key elements. The market pricing on interest rate changes has been dramatic. The market is now pricing in 50bps cut in July. How bad is the global economy? There has been a drop off in manufacturing PMIs, which have fallen into a negative balance. The US is a concern in terms of the speed (i.e. recovery is stalling)
- The amount of debt globally is naturally causing a break on growth
- Negative yielding assets are now up to \$13 trillion. 13% of corporate bonds are negative
- Investors get 200% of the current yield on corporate bonds as a spread over government bonds. We buy the corporate bond and hedge out the government bond, making credit an attractive asset class
- In bond markets, the majority of the return has not come from income, but from capital appreciation
- UK assets look very attractive
- Central bankers have got our backs. They know they need to reflate the economy and are trying to avoid investors getting hurt. Our view is that investors shouldn't be fighting the Fed or the ECB
- Investors need to be careful on the assets they pick. Growth-sensitive assets could run into difficulties as economy stalls
- There is room for credit to perform going forward, but next year, it may be different - driven by valuations

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