

Key notes



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Christine Johnson, Old Mutual Corporate Bond Fund

- Has just taken on management of portfolio on a permanent basis
- Key is going to be flexibility to negotiate volatile environment
- Looking to maintain high levels of liquidity active asset allocation
- Fund has some 20% in cash and sovereign bonds at present
- Johnson will rely not only on stock selection and sector rotation but also on active duration management

Corporate bonds as safe haven assets

- In 2011 the idea that sovereign debt was a safe haven asset started to erode
- Markets began to look at the credit-worthiness of highly indebted western governments
- By contrast corporates do not have high debt burdens
- A bond backed by high cash balances is a much improved credit risk and provides more return for the risk taken

Market beginning to realise corporates are safer investments

- Volatility of corporates much more subdued than in 2008
- Spread over sovereign debt nowhere near as high as it was then
- Financial system and sovereign debt crisis are interlinked – both need to be addressed at same time
- Large scale refinancing by governments takes place in next few months – will be hard for bond markets to find feet and rally strongly until then
- Johnson keen to increase exposure to corporate bonds

Corporate bonds are attractive in a low growth economy

- Low growth implies lower inflation – a positive for fixed income
- Low growth should be enough to cover bond payments
- Very low yields on government bonds make corporates look more attractive

Corporate bonds are an attractive investment

- Potential to produce an inflation-beating real return
- The long-term return from bonds is made from compound interest
- Expect corporate bonds to have lower volatility than other asset classes this year

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