

Episode 23:
Investing across asset classes in the age of stimulus

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Listen to Income and Growth senior portfolio manager [Justin Kass](#) discuss how a new \$1.9 trillion round of stimulus, a steep rise in US long-term rates, and an ongoing debate about the future of inflation may impact financial assets, particularly US equities, high yield, and convertible bonds. Also: Justin talks about what's next in the M&A arena and convertibles issuance.



Justin M. Kass
Managing Director and Senior Portfolio Manager at Allianz Global Investors

Show notes

The Investment Intelligence Podcast: Investing across asset classes in the age of stimulus

Host: [J.P. Vicente](#), Head of US Marketing & Client Engagement at Allianz Global Investors

Featured guest: [Justin Kass](#), Managing Director and Senior Portfolio Manager at Allianz Global Investors

Notes, quotes and references:

J.P. and Justin review how a new \$1.9 trillion stimulus package, a rise in US long-term interest rates and investor anxiety about inflation may impact various asset classes, particularly US equities, high yield debt and convertible bonds. Justin also discusses the recent boom in convertibles issuance and the outlook for M&A activity.

Some key thoughts and topics from this episode:

Are you concerned about inflation risks, given recent rise in US 10-year Treasury rates?

“We’re not surprised to see the 10-year (Treasury) move higher. Yes, we’re surprised by the magnitude of the (move higher) and how quickly it happened, but not at the level which it is at. We would call this more of a normalized level, which is equated to people going back to a more normalized society after what occurred over the last year.”

What has been happening within the convertibles market?

“There are really two key themes (for convertibles) as we come into 2021. For the asset class as a

whole, 2020 was the second-best year ever for the convertible market in absolute performance: It was up over 40%. The last time we saw return profiles like that goes back to the 2008/9, coming out of the Great Financial Crisis. The second thing that was very unique to the convertible market ... was the massive amount of new issuance we've seen. When we started 2020, the convertible market was under \$200 billion in size. In 2020, we had over \$100 billion of new issuance in the convertible market, and with a positive move higher, the market closed close to \$350 billion in size."

Should the asymmetric return potential of the asset class benefit investors in this market?

"As long as we continue to see the trends we've seen, then the market as a whole should continue to have those favorable traits that we're looking for with that upside participation and downside protection."

How is high yield debt faring, especially given the recent steep rise in yields?

"Historically, improving economies tends to lead to improving credit spreads, or not widening credit spreads, meaning that even if you have a move up in interest rates, the high yield asset class should do better than core fixed income or investment grade or Treasuries."

How should investors view the rotation taking place in equities as economies start re-opening?

"Right now ... the market is digesting a lot, but once we get through the noise, it's going to fall back to what the market usually always falls back on; earnings and earnings growth. Investors are typically rewarded when they focus on companies that are meeting or exceeding expectations. Once we get through this noise, we wouldn't be surprised if that plays out again."

Is the surge in issuance indicative of a market ready for a new cycle of M&A activity?

"We're definitely seeing the acquisition landscape look very attractive. And it makes sense. We do have stock prices that have moved higher. We do have a lower cost of capital. So if you take those two components together, I don't think investors should be surprised that companies are going to utilize both their stock prices and debt to make acquisitions."

The full episode has even more details on the topics above. Check it out.

Cultural recommendations:

J.P. recommends a debate, hosted by Princeton University, where two economic heavyweights—former US Treasury Secretary Lawrence Summers and Nobel Prize Winner Paul Krugman—take opposing views on the topic "[Will the Biden stimulus lead to inflation?](#)" You can read a Bloomberg review of the fascinating, more-than hour-long debate [here](#).

Justin is looking forward to when he can enjoy meals with family and friends at restaurants. In particular, he's dreaming of [Eddie V's Prime Seafood](#) in La Hoya, California, where diners can enjoy nightly live jazz and menu items including [lobster tacos and kung pao-style calamari](#).

Creativity and editing: Peter Lennox.

Production: Mark Egan.

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