Episode 15:

Is your fixed-income portfolio set up to reach its full potential?

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Show notes

Is your fixed-income portfolio set up to reach its full potential?

Host: J.P. Vicente
Featured guest: Mike Riddell and Kacper Brzezniak

Notes, quotes and references:

J.P., Mike and Kacper discuss fixed-income investing during the COVID-19 pandemic in a conversation that ranges from whether central banks can sustain higher debt levels to elevated corporate debts and the investor ramifications of the US election.

Some key thoughts and topics from this episode:

What's your overall view of fixed income after everything we've experienced so far in 2020?

> "We are at a difficult point for fixed income, and it does mean that to generate alpha, you have to look at different sources rather than just taking a rates view."

Should investor be concerned about declining corporate credit quality?

> "We've now had a massive increase in leverage on top of what was already a very high amount of leverage. So, this makes the whole economy much more susceptible to higher rates, but also makes the whole economy and credit as an asset class more susceptible to a double-dip recession. So, if we do get a renewed downturn ... then corporate bonds make us a little bit nervous."

Are you concerned about inflation?

> "We haven't seen really inflation really anywhere over the last 10 years. But we could see some early next year, and that's going to make things interesting. Because, the Fed said they can overshoot by a little bit. But again, I think if we see a 3 percent inflation print ... I think the market (and central banks) could get very, very concerned. That's something that's very much on our minds right now."

Can central banks sustain their high debt levels?

> "People forget that it's not gross debt that really matters. Ultimately around the world, net debt

equals zero. In other words, one person's debt is somebody else's assets. So, what really matters is when one area, region, country, or certain group of investors has lent to another one and at some point, they want their money back. That's when you get a problem."

Should investors be concerned about the US election?

> "Many people were actually saying a few weeks ago that Donald Trump wouldn't leave the White House. The idea of the US becoming essentially a dictatorship, the odds of that are essentially zero, surely. And yet, that seemed to be almost the central narrative for some of the market participants. So, this is something which, when we see risk premia being built up, do we think it's justified? In the case of the US, no, I don't."

Do you fear that a second COVID wave could crash markets as happened in March?

> "A haunted house is never so scary the second time. So, there might be a sell-off in risk assets, but we're not going to see a repeat of what we saw in the first quarter of 2020 just because of (a resurgence of) COVID. It's going to have to be something new, something different."

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

Cultural recommendations:

J.P. recommends Sir David Attenborough's new documentary *A Life on Our Planet*, recounting the path of earth's biodiversity through the naturalist's 93-years as well as his vision for a sustainable future.

Mike recommends the 2019 drama series *Chernobyl*, recounting the nuclear disaster there in 1986. (Interestingly, in his new film, Attenborough drew comparisons to that avoidable disaster and the biodiversity loss taking place now.)

Kacper recommends visiting London's Science Museum and National History Museum as well as the book *Billion Dollar Whale, The Man Who Fooled Wall Street, Hollywood, and the World*, about a man charged with defrauding Malaysia of billions of dollars.

Creativity and editing: Timothy Wong
Production: Mark Egan

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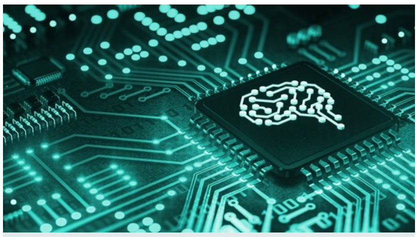

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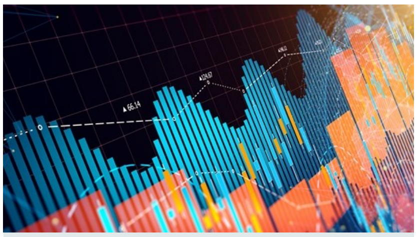

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