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INVEST WITH CONFIDENCE

Credit Investors:

It's time to pay attention to duration

> As duration in credit has steadily risen over the past decade, corporate bonds are more vulnerable to sovereign yield spikes than in the past.
>
> — Ken Orchard, CFA, Global Fixed Income Portfolio Manager

5 ways to dynamically manage duration risk

Adopt Structural Curve Positioning

Portfolios can be constructed with curve steepeners to hedge against inflation risks, followed later with curve flattening positions once central banks begin to withdraw monetary accommodation.

Allocate Across Regions and Sectors

For example, there are many investment-grade issuers in emerging markets, and EM credit has lower duration and higher yields than the developed market.

	Emerging Markets[1]	Developed Markets[2]
yield	2.47%	1.77%
duration	5.90 yrs	7.25 yrs

Data as of March 31, 2021.

Hold Euro-Denominated Credit

With the European Central Bank likely to be slower to hike interest rates, the Euro yield curve could be more resilient to sell-offs and euro-denominated corporate bonds should offer a degree of insulation against spikes in global yields.

Allocate to Shorter-Maturity Bonds

Combining short-duration bonds with an exposure to investment grade credit default swaps can create a portfolio that has similar carry and spread to the benchmark, but with less duration.

Active Management of Total Duration

While significantly reducing the overall duration of a portfolio is not desirable long-term, adjusting the overall duration exposure for short periods, depending on circumstances, can significantly boost returns.

Central banks are reluctant to raise rates, but if inflation pressures continue to build, yield curves may steepen further.

Credit investors who add dynamic duration management may perform better over the next few years.

Learn more

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As of June 2021.

[1]Bloomberg Barclays Emerging Markets USD Corporate and Quasi Sovereign Investment Grade Index.

[2]Bloomberg Barclays Global Corporate Index.

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