



QUARTERLY OUTLOOK: FIXED INCOME INVESTORS ALIGN WITH THE TRAJECTORIES OF THE MAJOR CENTRAL BANKS

APRIL 2019

Arif Husain

Portfolio Manager, Dynamic Global Bond Strategy



- Broad-based rally across developed and emerging bond markets on dovish turn by Federal Reserve (Fed)
- How global growth evolves will be critical for the performance of different asset classes
- Progress on trade talks and China deploying more stimulus measures are supportive of growth

BROAD-BASED BOND RALLY

Financial markets can be very good at focusing on a single theme, and the latest one has been a relatively simple one to identify: Don't fight the Federal Reserve (Fed). Heeding this lesson, investors would do well to invest in a way that is aligned with the monetary policy trajectory of the Fed—and markets are currently pricing a potential rate-cutting cycle starting within the next two years. At the same time as the narrative surrounding the Fed, data in Europe have continued to disappoint. This, together with a lack of growth momentum in China, has ensured that the rally in bonds, assets that are perceived as safer, has not just been in the U.S. but broad-based across most developed and emerging market countries.

What has been most striking about the Fed's decision to stay on hold is the reaction across different asset classes. While government bond investors have been keen to reflect the probability of a recession by pricing in a new U.S. interest rate easing cycle, equity and credit markets, on the other hand, have taken the view that global growth will find support.

EVOLVING GLOBAL GROWTH PROSPECTS

These opposing views have resulted in both core government bonds and equity markets rallying at the same time, a trend that is unlikely to last. How global growth evolves over the next few months will be critical for the performance of different asset classes with a stabilization potentially putting core government bonds under pressure, while further signs of a slowdown could leave risk markets, such as equities, vulnerable to a correction.

DOVISHNESS OF MAJOR CENTRAL BANKS LENDING SUPPORT

After a turbulent fourth quarter, the dovish shift among major central banks has helped to loosen global financial conditions and suppress volatility in 2019 so far. This together with progress on trade talks, has boosted investors' risk appetite. Going forward, we are closely watching whether these factors, combined with China deploying more stimulus measures, will be supportive for global growth.

Overall, we believe the environment calls for a tactical approach, so our ability to be flexible and adapt quickly to changes in market conditions will be important. Our role is to continue to offer a diversification alternative to our clients while generating sustainable income and to minimize drawdowns when some of our positions underperform. We will continue to seek to achieve these objectives through balanced portfolio construction and successful security selection in countries, currencies, and individual credits.

Key Risks - The following risks are materially relevant to the portfolio. Transactions in securities denominated in foreign currencies are subject to fluctuations in exchange rates which may affect the value of an investment. Debt securities could suffer an adverse change in financial condition due to ratings downgrade or default which may affect the value of an investment.

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