Speaker 0: Hello and welcome to this live fixed income master class on Asset TV. I'm Roy Palmer. Today. We're gonna be looking at the winners in fixed income. With this changing interest rate environment, we're gonna be looking at the case for investment grade corporate bonds. I'm going to be looking a little bit at ethical bonds as well, but I'm delighted to be joined in the studio here by Stuart Chilver, fund manager at Rathbone,

Speaker 0: Jerry Wharton, CEO and Joint CIO at Church House Investment Management and Ben Lord, fixed income portfolio manager at MNG.

Speaker 0: Well, Stuart, welcome to you. Welcome to the show. Could you kick us off a bit? Set the scene. So 2022 was one of the worst years for a generation to be a bond investor. What's happening now? Give us a sense of last year and And what are we looking at at the moment?

Speaker 1: Morning. Yeah, so I mean, there's no no way to get around it. 2022 was an incredibly difficult year as a fixed income investor. There was no real hiding place. And as you say, it's the worst year in a generation. But what we were talking about at the back. The back end of last year for investors was

Speaker 1: that pain meant that you now had significant carry within your fixed income portfolios. And it meant it could protect you to a degree from further rises in interest rates and rises in government bond yields. And that's what we've seen here today. You've had continued rise in government bond yields as interest rates have continued to go further.

Speaker 1: People expected to start a year. But still, you've been able to make middle, small, positive, nominal returns year to date. Because of that carry you've generated,

Speaker 0: uh, Jerry, welcome to you. And similar stuff to Stuart. What are you seeing? Um Well, unfortunately, I think I can confidently say that ice several generations, Um, say, uh, we went into, um

Speaker 0: Well, the end of 2021 thinking this is going to be 1994 all over again. And 1994 was, um uh when the Fed had a very aggressive hiking cycle. Um, and it did a lot of damage to the whole market, and we thought, this is going to happen all over again. So it did, um, enable us to, um prepare as much as we could. The Stewart says there is actually no way to hide, But you could take certain steps to limit the damage.

Speaker 0: Um, and and we did do that, um, and and it and it it worked out, um, better for us than than others.

Speaker 0: Um, but I quite agree that, you know what? Last year I produced all the damage that happened. Uh, is the best opportunity that we've seen? Certainly. I've seen, um, in my time as a bond in Leicester. Um, and it's one that I still remain surprised that people aren't embracing as as much as they should be. Ben. Hello to you as well. And damage limitation. There is a fair reflection of of last

Speaker 1: year last year. Yeah, um,

Speaker 1: but I I totally agree with with with Jerry, I think, um,

Speaker 1: the the opportunity is is very attractive. It's It's potentially imminent. Um,

Speaker 1: and, uh, you could see, uh, you know, a multiyear period of of very decent returns in in investment grade bonds.

Speaker 0: Stuart, there's opportunities. Where are they popping up when you're you're there with the Rathbone team. What are you seeing?

Speaker 1: Yeah, I think there's opportunities in a variety of spaces in particular. For us, we see relatively short dated subordinated financial debt is really attractive, so still limiting that duration risk within the portfolio, which has been positive year to date. And you're still generating really attractive credit credit spread despite the rally you've had year to date,

Speaker 1: and we look at these businesses. If you look at banks, for instance, generally they've been beneficiaries from the rising interest rate environments. Earnings have generally still been very good, and you look at the likes of the Bank of English Stress test. It's a very severe stress scenario, and generally solvency of these businesses can still survive through that. So we see that as an attractive space

Speaker 0: and your portfolio that you run there.

Speaker 0: What what's the make up? What makes it different, say, from other fixed income

Speaker 1: products, so it varies across across fund. But within the Ethical Bond Fund, for instance, we have a significant portion within subordinated financial, so short dated bank debt, short dated insurance debt and at the moment we've deployed it somewhat of a barbell. So we then also have long dated green gilts within that to balance out the risk of the portfolio. And we also have an ethical screen as part of that which is what differentiates it to quite a lot of other funds within the

Speaker 0: space. And Jerry Stone.

Speaker 0: The funds are the church. House strategy has quite a different approach, especially when it comes to fixed income. Um, well, we are a private client house. We have a a private client book of business, and the fund was conceived and is run for use within private client portfolios.

Speaker 0: Um, and therefore, we we do come at the asset class from a a quality perspective. We're not looking for undue volatility at all. Um, we don't think private clients want volatility from that part of their portfolio. And certainly they they didn't want the volatility that that some saw last year.

Speaker 0: Um, and, uh, we we therefore do maintain, um, a AAA very high quality mandate. So pure investment grade. Um, all sterling, because all our investors are sterling. Um, and this has been recognised by our external investors. Um uh, such as, um, who have used the fund for exactly the same reasons that that we use the fund. Um, and And therefore, um, we we're we're not taking on undue risk at all. Um

Speaker 0: uh, And we don't need to, you know, if we we have short dated opportunities, um, providing us over 7% yields, then there's no need to go further out on the curve, and and so we don't, um And I seem to have gone around this year with, um our marketing trips. Uh, hot on the heels of other, um, uh, Bond farm managers who who have been saying apparently all year, uh, you got to buy duration, and that has not been the case. There will be a time to embrace the duration, but we don't think we're there yet.

Speaker 0: And if you put it in the context of, um, the 30 year guilt, which is, uh, issued january this year is, uh has been down 18% and is currently down 17%. So that exit embracing that level of risk is, uh, and volatility has has not worked again for investors. Why do you think they're saying that saying to buy duration, Um, because there there will come a time to buy duration, but I don't think we're there yet.

Speaker 0: Um, and bear in mind that some of these managers are the same ones that went into, uh, last year with too much duration. And and that was obviously what did a lot of the damage. Um, uh, so why the credibility? They think they have to say in January this year? Now is the time to buy duration I. I just couldn't. Couldn't quite figure it out. Um, one point that we covered when we caught up prior to this was floating rate notes, and that's a part of the fund as well. But it's not widely used by other funds.

Speaker 0: Uh, no. I mean, we're we're we're not a benchmark fund. So So we are, um, free to go where we want to embrace, you know, different types of risks that others can't necessarily use. Um, we've used rate notes for for many years. Um, they're all seen as secured. Um uh, cover bonds, and, um, they they, um AAA rated. Um, because you have duel recourse to the issue and to the cover pool that secures them.

Speaker 0: But the main thing is that, uh, they are floating. Um uh, but they also say they remain liquid. So we went into last year with 50% of our assets in inflating inflation rate notes, which, um,

Speaker 0: you know, they're not necessarily used by other managers because, you know, they don't appear in certain benchmarks or indexes. Um, but we say we take a slightly sort of, um

Speaker 0: uh, off the approach because the the fund has a very specific mandate, and it enables us to to use those assets. Um, and not least, we do have to maintain 25% of the fund in AAA rated assets. And obviously, when gilts are downgraded from AAA, we had to look for alternative and cover bonds, provided that excellent. And and then the the M and G strategy. What's your duration looking like at the moment? Have you made any changes?

Speaker 1: Um, I might be one of those people who you've been following around. I mean, II I No, no, not at all. I mean, I am

Speaker 1: I agree with with with both of you, I think that the

Speaker 1: I think that, uh, it it's I prefer the front end. Um, and I think that sort of anywhere from

Speaker 1: one year to seven year, um, fixed income, so either or investment grade credit, um, is is the right place to be,

Speaker 1: um, curves are very inverted. Um,

Speaker 1: I do want to be long duration I. I wasn't sure when they embarked on this hiking cycle that we would get policy rates to 5%. Um,

Speaker 1: so you know, I, I want to be leaning into duration somewhat, but I share totally the the nervousness around the long end which has been which has had a very, very tough two years now, um,

Speaker 1: and I I can personally see that continuing, Really? I mean, you just look at the levels of inversion between two years and 30 years, um, anywhere in the developed world UK US or Europe. Um and you're clearly being told if you want to earn a decent yield, you should be staying at the at the shorter date to end and take less interest rate risk.

Speaker 1: Um, but there's a lot of government bond issue to come. I still think there should be an inflation risk. Premium I, I think this year and next we may see a return of of a positive term premium in in rates markets and

Speaker 1: so sort of same as both of you. But I guess just wanting to to lean in a bit, put my shoulder into some duration in the sort of 5 to 7 year part of the market. Do

Speaker 0: you think we're at the end now of this rate hiking cycle? Do you think this soft landing is going to be achievable?

Speaker 1: Those are two different questions. Um, look, I, I think that

Speaker 1: are we near the end or the beginning of this hiking cycle really much, much, much nearer to the end would be my core view. Can I see scenarios in which,

Speaker 1: um, policy rates have to go towards six? Yeah, definitely. You can't rule them out.

Speaker 1: I think the damage that would then be done would be pretty severe. Um, And I think the market seems to have spent this year

Speaker 1: quite frantically pricing in a soft landing or or maybe even no landing scenario. And And those two scenarios probably make up the majority of of market pricing right now, um, I'm much less

Speaker 1: positive than that. Um, and one of the reasons I I'm I'm slightly nervous about staying in the very short dated end is just because it's reinvestment risk, you may get a six or 7% yield today,

Speaker 1: but I think there's a pretty decent chance that in a year's time

Speaker 1: six or seven is gone. Um, and if that's the case, then I think going into some fives, maybe some 10 year fixed income and locking in yields where they are today will will be a good

Speaker 1: decision to have made and would have delivered some good performance.

Speaker 0: And Jerry, with inflation coming down and rates also coming down this Goldilocks zone that you were talking about recently, what do you think? Um,

Speaker 0: the one. You're phone. I'm not actually sorry I said that word. It was used on my behalf, but, um uh, it has been thrown back at me quite a few times, but, um yeah, II. I think there is a chance that we will get away with not having AAA recession. Um, and if we do that, it should be hopefully fairly. Um, which has got to be a good thing. Um, we certainly went into this period with, um, balance sheets, um, across the spectrum in in pretty good shape. And we got to remember that that, um most people

Speaker 0: have, um, had built up a savings cushion which has been deployed. And as you know, the cost of living has increased. And whatever. Um, the corporate balance sheets, uh, have have definitely, um, come into this period into a potential recession environment in in good shape. And that's because any corporate treasurer who is, um,

Speaker 0: um, awake at the wheel spent all of 2021 refinancing their their outstanding debt whether it was, um, uh, turned out debt or whether it was revolvers, which is absolutely the right thing to do. Um, And if you look at some of the, um, uh um, coupons achieved, um, on behalf of the borrow in 2021 they were extraordinary. I mean, just fantastic. And

Speaker 0: my favourite example is, um, Barclay Group. Um, who issued, um, a bond in mid 2021 10 year paper paying 2.5%

Speaker 0: Which for a house builder is Christmas. Um, for the investor, it's a disaster because, uh, we bought a chunk, and thankfully, we sold it at the end of 2021 because we started buying it back recently at 59. Um, and it's now training at 66. And so you can see all the cattle upside that's there. Um, but, um, the the long term holders of that have have taken an absolute you know, um, beating on the on the market to market value. Um, from a credit perspective, yes. Back developments, war this morning.

Speaker 0: Um, but they're warning that, you know, profits are going to go down from a billion to 880 or whatever it was, um, you know, from a credit perspective, it hasn't changed. Um, uh, our view of, say, barrett developments, but Barclay Group have a very strong balance sheet. Um, they raise the money from this issue for, um, I'm sure you know, it's it is a green bond that has to be used to build, um, new build properties with the highest, um, energy, um, performance certificates and which is a good thing,

Speaker 0: Um, but for the investor is a disaster. Um, but, you know, if you replicate that as all those borrowers who came to market in 2021

Speaker 0: uh, really did turn out, you know, their their debt at extraordinary levels. Um, which you know. So the cost of funding for them remains very low, Absolutely right to roll over debt now has completely changed as the landscape. Um, and I do agree that there isn't reinvestment risk, so you can't stay completely short, you know, in in in your portfolio. Um, but then you're still getting issues coming out at, you know, 57 years, which are paying again, you know, really healthy coupons.

Speaker 0: Um, and I'm amazed as I say that there hasn't been quite the influence into the asset class that that we would have expected. And Stuart going back to duration just for a second here. What's the rough one? You really quite defensive. What's the

Speaker 1: position? Yeah. So we we were shorter duration

Speaker 1: going into 2022. We just didn't feel you were being paid for duration risk. Uh, we maintained that view going into 2023 particularly. Think back all the way back to sort of February. M PC 10 year guild dropped to around 3%. We were struggling to make sense things aligned with the messaging we're getting from central banks.

Speaker 1: We've started extending that in the in the past 34 or five months, uh, slowly piece by piece. And we're very active in that space. As I mentioned, we sort of use longer duration green gilts to to vary it where we have that bulk of the portfolio at the shorter end.

Speaker 1: What I would say is, historically, when you've had the peak in rate rises, once rate rises stop, long dated government bonds tend to outperform at that point, even ahead of any cuts, Which is why we view it as that start. To reduce the risk of that underweight duration position, it start to add some duration back to the

Speaker 1: yeah to use the word again. But the Goldilocks scenario, which is, um, in my opinion, quite heavily priced into markets now maybe we're slightly less angry on that. We think there's potential risk out there. You look at the tight thing in lending standards from banks, for instance. Historically, that's a good lead in case for bank lending volumes.

Speaker 1: That's those sort of things are starting to worry us, and, you know, it looks as though the transmission mechanism for monetary policy is slower than it's historically been. So it could mean that actually, we're just delaying the par of Let's be frank. It's very sharp and significant interest increase in interest rates. Do

Speaker 0: you think those lags have been priced in. Or do we appreciate how those lags have affected it already?

Speaker 1: I think I think it's hard to say that. I think I think there's a need to be humble, Um, given what's happened in the past 18 months. But I would say I'm concerned that perhaps there is an under appreciation of the risk, which is why we think that building out there and with low risk debt that's the key point there, right? We're buying long duration debt but low risk debt in that space space where you can easily liquidate it as well as take advantage of your opportunities if credit spreads were to

Speaker 0: wide and moving to to corporate bonds. When you're looking at those

Speaker 0: investment grade corporate bonds where it's looking good at the moment, it's looking like a good bet.

Speaker 1: So as I sort of mentioned so subordinated banks, subordinated insurance paper for us makes a lot of sense, actually, Senior senior really top of the cap structure, so senior preferred bank paper still think it looks interesting, particularly at that short end. We like to think of things in terms of break even duration. It's very simple measure just divide your credit spread by your duration. It tells you how much credit spread widening you can suffer before you'd be better off buying a guilt of the same maturity.

Speaker 1: Look at that. Short end. That's where there's a lot of opportunities in that space. I think some of the longer, longer dated paper credit spread in this high quality sectors. I think credit spreads are looking quite tight there, Jerry.

Speaker 0: Similar question to you. Where are you seeing some good opportunities? Um, well, we embraced on yesterday, so there was a new issue from Yorkshire building society. Um, you know, non preferred. Um, uh, for your maturity with a three. I call, um and, um

Speaker 0: uh, it priced at seven. And 38. I think it was in the end. Um, and that's a, uh,

Speaker 0: a bond that paid, um, uh, 260 basis points over its benchmark. Um, And see, there was some decent US issue premium left in it. Um, which has not been the case for a lot of insurance this year. Um, and, um, you know, that's, you know, it's a It's a very solid financial institution. Um, touch wood, but, um uh, historically, there have been, um and, uh,

Speaker 0: that's the kind of thing that's coming out of the way back at the moment. Um, we even saw, uh, we've seen a certain amount of issues. Um, uh, foreign issues in issuing into sterling. Um uh, and some very good quality issues. Um, such as caterpillar. Um, we all like that name because they also produce great bits of kit. You know,

Speaker 0: um, that when they issue a, um, a five year bond paying, you know, 5.5% or whatever the coupon was, then you know it's a good quality solid a rated entity that you don't normally see issuing in sterling. So, um, that's the kind of thing we're seeing coming out from the primary market.

Speaker 0: Um,

Speaker 0: and I agree that in the secondary market subordinated financials, you know, you don't have to look far to find some really beaten up credits that are trading at silly prices. Um, and, uh, you can look at a very good quality institution, in our view, such as Ross life. Um, and you can find some sting value, and some of that are beaten up subordinated bonds. Yeah, but where are you seeing some value?

Speaker 1: The same. Um,

Speaker 1: I think, uh,

Speaker 1: yeah. Similar in both in terms of of the sort of front, More front end, Um, of the of the, you know, the very long dated Sterling market.

Speaker 1: Uh, banks in particular,

Speaker 1: um look very attractive, I. I also quite like, um, the utility space. Frankly, just as a as a bit of a bar bell. You know, banks, particularly subordinated banks and insurers are a high B to play. So

Speaker 1: something on the other end of the credit spectrum. Um, a utility where, if you're nervous about the tightening impact, monetary policy, tightening on aggregate demand and on consumer spending abilities, then might want to be a little bit further away from discretionary spend and closer to to our goods and services that people have to spend on. So

Speaker 1: especially when you go back to 2021 which was just a crazy low in yields tight and spreads everything combined. You know, utilities

Speaker 1: credit cards were flat to inverted in the UK. So you were getting paid less of a risk premium for buying a long dated bond than a 10 year bond.

Speaker 1: Um, yields are very low, Um,

Speaker 1: and and spreads for utilities in the UK at the very long end were probably 70 basis points over guilt. Well, I'm not going to say they're really, really cheap here, but at least they're coming in the sort of mid to high one hundreds. So a decent enough change from that,

Speaker 1: um, extraordinarily tight market in 2021 II. I do think one thing we've got to, you know, as you said, Stuart, but we've got to be humble about is,

Speaker 1: um Is is

Speaker 1: the delayed transmission mechanism and the fact that we're all flying blind and and we need this humility. And, um, the bond market took its pain in the last year and a half, um, two years.

Speaker 1: Um, but there's been a paradigm shift in UK mortgages in the last 20 years. 20 years ago, it was 100% variable rate market. By now, there would have been a significant impact on,

Speaker 1: um, house prices on aggregate demand and so on. Well, today it it it's kind of exactly the opposite. We have nearly 100% fixed rate. And 10 years ago, the fixed rate product was two years and now it's five years.

Speaker 1: So, you know, I think lots of us were expecting that the transmission mechanism, the lag between a hike and then a reaction in the real economy was going to be longer than it ever had been in the UK. And we're seeing that play out. The bond market took its pain.

Speaker 1: But if rates are gonna stay here, um, we're gonna watch from this summer until the end of 2024. We're gonna watch the lag expire through mortgages. Um,

Speaker 1: and whilst I see good value in In In Banks, um, I think that's one of the things that one has to be somewhat nervous about and and and watchful of.

Speaker 0: Do you see what with companies and with higher borrowing costs across the board, Do you see the cracks starting to appear in some of these companies paying that back and a lot of it again refinance their debts well, in in the covid times. Now, with rates where they are, we're gonna see some defaults. We're gonna see some issues.

Speaker 1: I mean, the the the simple answer is yes. We're going to see some defaults and default rates are higher than they were last year. Um, and they were higher last year than they were in 2021 but they're starting to from very low levels.

Speaker 1: Um,

Speaker 1: the the answer is yes. As as as, um, Joe mentioned, the fact that treasurers locked in their funding so long is is going to mean again, like, similar to the mortgage market, that we're in a a more slowly evolving market. In that regard than we've been in in investment grade,

Speaker 1: you shouldn't get defaults, and and certainly our jobs, as as portfolio managers, is to try to spot them and avoid them.

Speaker 1: Um, and hopefully, you know, before a company defaults, it's It's deep into high yield territory. Um, already. So I think the the the slow pace at which refinancing is happening in the corporate space, particularly in investment grade, suggests that one can still be pretty.

Speaker 1: Expect a benign, um,

Speaker 1: probability of default environment in in investment grade, but at a higher level, you you've got to expect defaults to pick up and and there are cracks. Um, there are small parts of the market that are already feeling pressure.

Speaker 0: You don't, you know, invest in high yield. You don't hopefully don't go near defaults and kind of that area. Uh, we do invest in

Speaker 0: good quality, high yield if there's such a thing, Um, in a in another fund, Um, in our absolute return fund,

Speaker 0: that any at the double B level, Um, which is not in the game of of of, um, take on that that level of uncertainty that you might get by going down the food chain. Um, and as as we've been outlining that there's no need to, you know, if you're getting these kind of coupons, these kind of yields from, you know, good, solid, you know, triple B rated credits. And where's the incentive to go down the food chain? We just can't see that it's there.

Speaker 0: And people that you know who are approaching the asset class from a slightly different perspective will want to get involved in high yield paper, will want to get involved in emerging market debt. Um, and you know, we wish them well, it's just not our game. Um, and it's not really, um uh, certainly what our client base is looking for. Um, And as I said earlier on, we were all reminded, unfortunately, by last year, that, um, most clients don't want that level of volatility anyway. Um, and

Speaker 0: if you can provide a, you know, a, um, a 6% yield from a, you know, good quality portfolio investment grade credits. Then we we can't see why people are going elsewhere. Um, when we've seen a lot of people, obviously the very short and, um uh, going to short dated guilts directly for for for private clients. We can understand that. Why, um you know, because you, you know, you buy a very late coupon, short dated guilt, and you'll buy it in the seventies or whatever, and you can grace it up. And

Speaker 0: obviously, um, the capital gain part is tax free and grade it up to a really decent yield, but that opportunity won't be around forever. So exactly the reinvestment risk that that you mentioned is is absolutely that so short term, that's that's fantastic. Um, but longer term, you know, to capture the yields on offer now and investment grade is we think is incredibly compelling. And, Stuart, you've You've shifted recently, right to some triple BS in the portfolio as well. Has that happened?

Speaker 1: Yeah. So I just Yeah. So we have. We have quite significant exposure to trips with with an ethical bond fund in particular, we think relatively short trip be credit is quite a good starting point for IG credit, because historically you tend to get the strongest risk adjusted returns from that space.

Speaker 1: Uh, but the thinking in terms of high yield space as well I just touch on that. As we have some exposure in our strategic bond fund at a top level, completely agree with what's been said. I don't think it's obvious compensation within their spreads aren't screamingly cheap at all. In fact, they're probably slightly tied to an average, uh, default rates naturally going to pick up, as Ben mentioned. And

Speaker 1: there's a bit of maturity war coming in sort of 25 26. We still think there are a sort of small opportunities within there and specific stories. Again,

Speaker 1: it's back to it, but sort of we're in the deeply subordinated bank space. So the 81 space where there's language within those bonds which mean if they're not called post 2025 they won't be contributed to capital ratios anymore. We think there are some interesting opportunities there which again you're limiting duration with and picking up really aggressive yields there because you're deeply subordinated

Speaker 0: and and moving forward. And we've got, um, sort of looking into next year. What do you think the investment grade corporate bonds are looking at Any sort of predictions you have?

Speaker 1: That's a That's a dangerous question. Um, yeah, I look at ethical bond year to maturity on the fund at the moment is about 7.27 0.3%

Speaker 1: obviously trying to forecast what 2024 will bring it. It's fairly challenging, but I think it's reasonable to think yields may drop a bit lower from there. So high single digits, low double digits in in that area seems reasonable now, obviously, if you get a severe recession that that forecast goes out of the water. But in a relatively mild recession, government bond year is slightly tight, slightly lower spreads not blowing out aggressively because of that, maybe even tighter. If you start entered into a rate cutting scenario,

Speaker 1: that's that feels reasonable to me. Uh,

Speaker 0: Stuart, we touched on a bit earlier about the the barbell approach with the ethical Could you just give us a sense of of how that works, especially when it comes to ethical bonds.

Speaker 1: Absolutely so for the for the barbell approach. Generally, it's looking at short state debt with higher yields. And then that's where we're picking up the credit spread, really adding to the significant yield to maturity to the portfolio.

Speaker 1: And then it's having a relatively limited exposure to sort of the belly, so the middle of the curve, and then adding some duration with very long day green gilts or mid maturity green gilts to get the desired duration within the portfolio. For our view, on rates generally

Speaker 1: with ethical with in terms of the ethical constraints, every bond we'll buy has to go through our team. So they're called Banks Green Bank. They review every bond. If they don't approve it for purchase, it can't be held within the portfolio, For example. That's why we can't own standard guilts within the portfolio. Only green gilts, because those the use of proceeds are ring fenced.

Speaker 0: Joe, with ESG interest perhaps waning in the US and maybe here in the UK. What do you think about ethical bonds? Where do you stand on that at the moment?

Speaker 0: Um Well, I think it it takes a year like last year for a lot of people to push that down the priority list. Um, uh, I would say that, um, you have the credibility that most people don't because I think you've always been an ethical bond fund. Um, we were, um, aware that some people, um,

Speaker 0: in my view, cynically renamed funds Um uh, sustainable or whatever without actually changing the Constitution of that fund.

Speaker 0: Um, of the constituents of that fund. Um, I. I think that's a very, um, disingenuous thing to do. Um, we don't set out our stall as a a as an ESG house, but we obviously fully respect it and and would like to think that we've always done the bit. Anyway, Um, and it's quite hard to explain to your investors that, um,

Speaker 0: you're investing in something, but it's got, you know, rubbish governance. It's not really a a sort of investment factor that we you can ignore. Um, so we fully respect it, but, um uh, and we've embraced a lot of, um, issue That's come out. Um, and, uh, um, we didn't actually buy the motability bond that came out yesterday day before. Um, but which is a social bond, but they've always been social bonds. Now, that's what MOTABILITY does. Yeah. Um,

Speaker 0: so it's it's wired into what we do. Um, so we're not setting out our stall as as, you know, um, as an ESG, um, as an ESG has, um, and I think you know, a few people, um, uh, you know, need to slightly reconsider how they have portrayed themselves. Because, um, unlike what I've just heard from you, most people don't have a AAA structure in place to ensure that they really are complying with what they say they are complying with.

Speaker 0: And we've seen all the green washing debate and whatever. Um, uh, most issues, I think into Sterling actually have a, um

Speaker 0: uh, a very credible strategy framework that you can call up and and rely upon. But I can't remember who the issuer was. That came. It was a, uh, insurer that came out with a a green bond. Um, uh, and And everyone was scratching their heads, saying, Well, why is that Green? You know, you're an insurer raising TSU capital, and, um, they came back and said, Oh, well, it's not actually green itself. But we've got money alongside it That's going to be green, which I think doesn't really stand up to scrutiny.

Speaker 0: Um, So I think you just got to, you know, retain a certain sense of proportion to, um, how people are approaching the whole subject. Um,

Speaker 0: and, uh, but I'm saying that, you know, we've, um, fully, you know, we've never invested in tobacco bonds and the like saying it's just not really compatible because you know that, you know, it's the first thing most private clients will pick out and go. Why have you got that? You know. So, um, but I I failed to see why. Um,

Speaker 0: starving BP of capital is gonna help, you know, with their efforts of turning themselves into a slightly more, you know, planet friendly institution. Say we're happy to embrace risk and the likes of BP, um, because they need it. But do you think that's a fair point? A lot of funds repurpose themselves as being ethical bonds when really there wasn't enough to to prove that they were.

Speaker 1: Some of the some of the stories that you've seen have been pretty shocking about that. Um

Speaker 1: I I you know, we we didn't engage in any of that ourselves. We run a you know, we're a big bond shop. We've got some,

Speaker 1: um, grey financial return, old fashioned funds. Um, and we've got some article eight funds, some article nine, some sustainable. Um,

Speaker 1: so, you know, different funds can do Can do different things for for me, mainly looking at the the financial return side of things.

Speaker 1: I, I I'm definitely, I would say, um, respectful, um, open minded to To it And frankly, own a number of bonds and will continue to buy them when

Speaker 1: I can buy them more cheaply than I can. A non labelled bond. Um,

Speaker 1: And And there are examples of that, you know, almost through the through the cycle, but more more this year than they have been for a while. Um,

Speaker 1: so, yeah, we we we run funds in both spaces. Um, but but we get really interested when we're being paid a bit more for for buying a label bond.

Speaker 0: And Jerry touched it there about the recent issue of social bonds. Is that something that that you're covering in? And what do you think the future holds for those? Yeah,

Speaker 1: we? We generally? Well, it depends by individual bond. Um, so we'll look at the social bond framework for second party opinion on it

Speaker 1: says allocation reports. Impact reports, this sort of thing. So it's it's it's bond by bond. We we don't have a It's a it's a social bond insurance. We we have to support this. It's very much bond by bond and and equally the the counter of that. Just because a bond isn't labelled, it doesn't mean that that company is not doing some real social good. Uh, it work both ways, but generally, yes, we definitely do are interested in social labour insurance. It's an area we've seen grown, and hopefully we'll continue to see growth.

Speaker 1: And it's definitely something we look to invest in where it suits our mandate. And we think, most importantly, that the framework is credible just

Speaker 0: just from my perspective. Why wouldn't they be labelled what? What goes into that

Speaker 1: process? It might. It might just be, for instance, that that bond was issued before the labelling regime was significant. Maybe it's a very small issue, and there would be some cost associated with that reporting. But

Speaker 1: do you? Does it make sense for them, but yeah, it could just be a legacy legacy. Part of it, It's It's an old insurance before the labelling regime was really in place.

Speaker 0: And Jerry and again, I know this isn't too much in your wheelhouse, but ethical and green is important to distinguish the two processes because an ethical investor is different from the green investor. Um, yeah, yeah, I suppose you need to distinguish between the two, but it is overall sort of spirit behind it, isn't it? You know, I mean, we we are not going to buy

Speaker 0: rest from, um,

Speaker 0: people who make Vapes or whatever. I don't know if there is any risk for people who make Vapes, but you know, the things that that are destructive, um, to people that you know shouldn't be supported. Um, And then on the whole, I don't think any investor is looking to get involved in in, um, the wrong kind of issue. Um, but we take the view that's probably always been the case. Um I mean, I got some stick for holding some BAE systems risk a couple of years ago, which has since matured,

Speaker 0: and suddenly, you know, the Ukraine war happened. And suddenly everyone was all saying, That's a great thing to hold, you know, So opinions can sort of,

Speaker 0: um, changed quite quickly on on individual issues. But overall, it is the spirit behind the whole, you know, ESG Um uh, um um process is is good corporate governance and people trying to do the right thing within their within their companies. And we fully support that. And then there was a lot of excitement around Cop 26 in Glasgow. But as we head into the next one in a couple of months in in Dubai, there's not that same level. And there's a lot of criticism. I think a lot of that's fair.

Speaker 1: Yeah. I mean, I'm no, I'm no expert. It seems, um, that

Speaker 1: it's it's sort of political fanfare, really more than

Speaker 1: anything more meaningful than that. Um,

Speaker 1: very important process must be done. But, you know, frankly, probably the most important

Speaker 1: job that the world's got to face down. Um, looking forward as far as the eye can see, so must be supported. Must be engaged with, um, must be invested in and with, um But whether or not cop is the,

Speaker 1: you know, the sort of the the the great standard setter that it should be or or or we would probably hope it is. Um, as I say, I'm no expert.

Speaker 0: I mean, I. I would say that, um,

Speaker 0: one has to look at the the the picture overall, um, in this area because, um, you know, the UK. Is making quite big efforts to become, you know, net zero.

Speaker 0: but the stat that we came across the other day that, um, uh, China emits has emitted in the last eight years. More CAT or more emissions, Um, than than we, uh, have emitted since the beginning of the industrial Revolution Does make you stop and think that possibly you know, it's great what we're doing, but actually, if you're not bringing everyone else into it, um, the US and China and the US is actually making good steps as well, but

Speaker 0: we don't see a lot of concrete steps coming out of China, and and yet they are responsible for the majority of what comes out. So I I heard it described as shuffling deck chairs on the Titanic when I was a cop. Um, but staying with the UK and we obviously, we got a predominantly UK audience. I think the UK has a lot of structural issues. We had the GDP revisions that came out the other day, and that was positive. But there's still a lot of issues in the UK. And when you look at the market,

Speaker 0: what gives you optimism if any?

Speaker 0: Um, well, there's no two ways about it. We've, you know, um, as far as I'm concerned, uh, dealt ourselves a very heavy, self inflicted wound a few years ago. Um, and we're yet to recover from that. Um, and, uh, we need to become more productive. We need to sort out all sorts of different institutions, which are, you know, incredibly, um inefficient and just swallow up, Um, unbelievable amounts of money,

Speaker 0: um, of of of government budget and the idea that the goat market is this sort of money tree you can go to forever, um is is not tenable. You know, there are limits to what, um, you can you can borrow on behalf of this country. Um, and, um, therefore, you got to try and, um, increase the, um uh, like I say, increase productivity and make us a bit more efficient.

Speaker 0: Um, and that won't happen overnight. And I don't see that any change of government is going to do that either. Um, so, you know, we we remain quite optimistic for next year. Um, as you said, you know, as long as there isn't a deep recession, um, and certainly hopefully it will be a more stable year than this year, which is all last year, which is not going to be difficult. Um, but, uh, it is quite hard to look into the future at the moment, because at the moment, we're still sitting there with core rates of inflation,

Speaker 0: you know? Hardly come off the top. Um, and I know we keep saying, Well, they're going to fall off the cliff. Well, they just haven't yet. Um, and then you look at our PM IS that came out and they weren't great. And then you look at the ones that came out and they weren't great, either. Um, so you can, um,

Speaker 0: see, uh, you know, um,

Speaker 0: several cracks out there, but overall, we think, you know, going back to the balance sheet story that, you know, there's we're in a much better position to whether these potential, um uh, headwinds that than we might be. But do you think that was a fair point about guilt in the UK?

Speaker 1: Yeah. Yeah. Um, you can't just keep issuing, um, there has to be a a plan. Frankly, I think I think that's a

Speaker 1: sort of neoliberal developed world problem. Um, you you you're seeing the same in in Europe. Same in in the US in the US. You might even say that with a 10 to 20 year view, they're in a worse place with Medicare and Medicaid. Um,

Speaker 1: so

Speaker 1: it's it's, I mean, to take that argument to its to its extreme. You know, could there come a time where you'd actually rather own Corporates than governments? Um, and that's something that that we do occasionally. Yeah, they Yeah, they do. I mean, in extremist. Of course, the government can always come and and tax away their resource,

Speaker 1: but, um, it is a a very real debate, and and one that, frankly, I think, is gonna come to a head in the next decade. Um, as the the the the Baby Boom cohort loses its its primacy in the in the global system.

Speaker 1: Um, and that is gonna you know, that demographic debate and shift is gonna have some major implications, especially for government bond markets.

Speaker 0: What do you think? That only corporate government? Foreseeable,

Speaker 1: Uh, that wasn't a cool. Yeah, I I Yeah, I take the point in extremist. Um,

Speaker 1: probably not. I don't think it's it's not where I'd be looking to deal with the portfolio, but that was not the point being made. I completely accept that. Um, so yeah, II, I agree with what's been said, Really? And I think you know, I think Ben mentioned earlier about the pick up in supply coming into this into this, um, this year and

Speaker 1: that I think that's been a driver of guilty of moving higher, perhaps slightly underappreciated, because once you take net of QE or QT depending which way around you're going Actually, the supply for this year, it's hugely significant compared to compared to the past five years and in total, um, it's hugely significant. So you've you've had that story play out to You've had that massive step up in quarterly assurance. Once you subtract or add back QE and QT.

Speaker 0: Well, I think that's a great place to leave it. Thank you all for joining. Thank you very much for watching. And we'll see you here on Asset TV next time.