Manager View

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What is your definition of Multi-Sector Fixed Income? To us, multi-sector fixed income is defined by having the flexibility to avail ourselves of the widest possible range of opportunities, including sectors, credit ratings, term structure and geography, to name a few.

What are the current effects of geopolitical issues on Multi-sector Fixed Income? Geopolitical issues never go away; rather, they vary over time. But these factors typically influence investor sentiment and capital market valuations. Sometimes the impact is transitory, while other times the consequences may be more long lasting. Current events such as the growth slowdown in China, concerns about the long-term stability of the euro and corrections happening in Latin America are helping to make the case for multi-sector fixed income. During times of elevated risk, it is important to have the flexibility to manage your exposures across the broadest opportunity set possible and seek out the sectors that offer the best compensation for risk.

What are the common concerns/challenges facing Multi-Sector Fixed Income? One challenge still faced by multi-sector fixed income managers today is misperception. For example, many multi-sector strategies have been emphasizing credit in recent years. Consequently, the perception has been that these funds simply replace interest rate risk with credit risk. The right way to look at it, in our view, is that credit currently offers better risk-adjusted returns than interest rate sensitive exposure. In a different market, the opposite might apply.

Another example relates to investor expectations. Our multi-sector approach seeks to participate in rising markets, while protecting investors against downside risk in falling markets. However, it is important to keep in mind that during periods of heightened market volatility, the correlations between asset classes tend to go up; so, investors often assume, mistakenly, that the strategy is not doing its job properly. In reality, market disruptions and spikes in volatility are typically short lived and self-correcting in nature.

Why should institutional investors consider investing in Multi-sector Fixed Income? Institutional investors typically have a hurdle rate to achieve whether it is a nominal rate of return, a given return over inflation, etc. And typically they have liabilities to meet, which adds to the challenge. So, more than most other investors, they need to open up their opportunity set, think more broadly, and get the greatest degree of flexibility from their fixed income exposure. Multi–sector fixed income is not a cure-all, but it can be a good way of pursuing those objectives.

How do you as a firm go through the process of investing in Multi-sector Fixed Income? First, we formulate an investment thesis that incorporates a top-down macroeconomic outlook. The top-down element of our investment process assesses the key economic underpinnings of the market's risk cycle, seeking to identify credit excesses and cross sector developments in an effort to position our portfolios correctly during turning points in that cycle. We then identify value in the market and determine which investments offer us the best compensation for the risks. Additionally, the bottom-up component of our investment process continuously feeds into our macro analysis to help identify significant changes in economic and financial market conditions.

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How do you assess or determine a benchmark or should Multi-sector Fixed Income be benchmark agnostic? We generally think full discretion multi-sector fixed income mandates should be benchmark agnostic, rather than tethered to a specific benchmark. Benchmarks are essentially a reflection of the volume of debt outstanding, and do not necessarily represent the optimal opportunity set. Benchmarks can sometimes indirectly create a sub-optimal outcome when managing risk and return in a full discretion multi-sector framework.

Which areas in Multi-sector Fixed Income do you find most attractive at the moment? Broadly, in the current environment we believe credit assets offer better compensation for risk than interest-rate sensitive assets, and we see opportunities in investment grade and high yield corporate bonds as well as bank loans. That said, the credit markets are certainly not without their risks.

For example, today the credit markets have bifurcated due, in large part, to concerns about China's growth outlook and the potential knock-on effect on commodity prices. This has resulted in energy and other commodity-related sectors (notably metals & mining) significantly underperforming the rest of the credit market.

While pockets of weakness may be observed at the margin, we have not seen a need to change our overall view that credit fundamentals are sound and that credit-sensitive bonds continue to offer good relative value.

How does your firm protect Multi-sector Fixed Income portfolios during a period of rising interest-rate uncertainty and market volatility? We protect our portfolios against interest-rate risk via short duration positions using Treasury futures. We find this to be a fairly efficient and effective way of managing duration risk.

Our attitude toward volatility is that there will always be short-term bouts of volatility and we acknowledge that one cannot be positioned for all possible outcomes. Attempting to trade around volatility is costly and difficult to do with consistent success. Instead, we look to manage the risks over an economic cycle and ensure that we are being compensated for the downside.

Dan Roberts

Executive Managing Director at MacKay Shields
Head of its Global Fixed Income (GFI) team.