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in the know

Do you dread sitting next to a bond fund manager at a dinner party? Well, perhaps you should consider yourself lucky, says **Stewart Cowley**.



Ordinarily you wouldn't want to sit next to a bond manager at a dinner party. They really are the most appalling people: they delight in seeing economies collapse, interest rates fall and, as a consequence, bond yields fall. Falling yields, in the upside down world of bonds, means rising prices. And with rising prices come rising fund returns, making bond managers and their clients happy. It might seem like a trip to the dark side of your soul to seemingly profit from other peoples' misery but really it's more like an insurance policy: you hope you never need it but if it's there you'll use it.

I exaggerate to make a point of course. No-one is really indifferent to the consequences of economic hardship because none of us is really immune. But from a portfolio point of view you can understand why you could be grateful for an investment in a bond fund when things go bad; as equity markets fall and bond prices rise, your bond portfolio can provide a useful counterweight to your total portfolio, smoothing out the volatility of returns along the way.

opportunity from uncertainty

In an uncertain environment it's always good to give yourself the best chance of reacting to and benefiting from changing circumstances. But with uncertainty comes opportunity, and the Old Mutual Global Strategic Bond Fund has many investment levers it can pull in the global bond and

currency markets to make the most of such opportunities. It can use currencies and corporate bonds to create extra returns when sterling is weak and generate income when yields are generous in the non-government bond sector. When applied properly, these levers can increase clients' wealth or help smooth out the volatility of overall portfolio returns.

And in the coming 18 months we anticipate opportunities to provide a total return and increase the real wealth of our clients. Things are likely to get worse before they get better. Government bond yields could reach all-time lows in the coming months as central banks manipulate long-term interest rates down to levels never seen before, in order to safeguard the economy.

Meanwhile the corporate sector is undergoing a healing process which will see well-supported corporate bonds perform. Interestingly, banks are experiencing a phase that increases confidence in their debt, especially given government guarantees surrounding their ability to honour their interest payments and repay their loans. With increased confidence comes decreased concerns along with rewards that outweigh the risks, making them a worthwhile portfolio investment. Other sectors such as technology, communications and energy similarly have companies with sound finances that make worthwhile investments. Picking the survivors is the key to success.

currency themes

The Fund is also able to use currencies. There are currently a number of currency themes in play around the world, not least of which is the question mark over the long-term credibility of the US dollar. As a debtor nation there appears to be a limit to creditors' patience with the US, notably in China and other nations with large bank balances. Sterling could fall into the debtor category, causing it to decline along with the dollar against other currencies as wealth is transferred from the west to the other side of the world. The yen and Australian dollar could do well under such circumstances – we currently have exposure to these currencies.

No-one can predict the future with anything more than a nod in the direction of probability, so by giving ourselves the best chance of dealing with what comes our way, we also give ourselves the opportunity to maximise returns and increase your clients' wealth. Now if that isn't a good enough reason to sit next to me at a dinner party, I don't know what is. ●

The Old Mutual Global Strategic Bond Fund, managed by Stewart Cowley, is available through Skandia's Life and Pensions fund ranges and the Skandia Investment Solutions platform.

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