Payden&Rygel

GSFM FUNDS MANAGEMENT

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MEDIA RELEASE

Time for a rethink on the place of bonds in 60/40 portfolios

The importance of including bonds in a portfolio is more relevant today than it has been in decades, according to GSFM fund manager partner, Payden & Rygel.

Payden & Rygel, portfolio manager, Eric Souders says that bonds provide good prospects for potential returns on a risk adjusted basis, particularly versus more risky asset classes like equities, but he added it could be time for a rethink on their place in a traditional 60/40 portfolio.

"We believe the traditional 60/40 portfolio could be recalibrated to include more multi-asset strategies.

"With an expected downturn in the global economy, it is important for investors to look to active management. They need to have more latitude around stock selection, and more latitude around interest rate duration, and not necessarily be tethered to a specific benchmark.

"The bottom line is that bonds should play a more prominent role in portfolios today. But on the 40 side of that 60/40 equation, investors can perhaps be more creative around the types of bonds they are buying," says Mr Souders.

He adds that the current macro-economic environment opens up favourable opportunities to invest in higher quality bonds which are providing good yields.

"Yields are higher across the board in fixed income, which has not been the case for the past three to five years.

"When constructing a portfolio and deciding where to put capital, higher interest rates mean including cash is more a comfortable decision for investors. The same is true for those looking to invest in government bonds and high-quality investment grade corporate bonds.

"Bonds offer good running yield potential, of a much higher quality, plus potential price upside."

Mr Souders says credit spreads are still tight, but investors are now well compensated to hold higher quality securities.

"Today you are getting paid to own higher quality securities. You don't have to reach for yield. In fact the 'reach for yield' is almost the reverse of what it was years ago.

"Similarly, you don't have to reach down the credit quality spectrum, or head further out on the yield curve, for returns. This means investors can be more conservative and defensive at the front end."

He concedes the front end is controlled by central banks and government policy, so there is the potential for volatility.

"This potential volatility can be mitigated by applying a strategy that focuses on absolute returns, is concentrated on the zero to five year maturity spectrum, and moves capital toward higher quality assets," says Mr Souders.

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GSFM was established in 2007 as a subsidiary of the Grant Samuel Group. In 2016 Canadian wealth manager CI Financial Corp (CI) purchased an 80 per cent stake in the business, acquiring the stake previously held by Grant Samuel.

GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors, and has formed partnerships with six specialist investment managers:

- New York based Epoch Investment Partners, Inc.
- Tribeca Investment Partners, a successful Australian boutique manager headquartered in Sydney
- Payden & Rygel, a Los Angeles based independent investment management firm
- Munro Partners, an independent global equity manager based in Melbourne
- London-based Man Group plc
- Tanarra Credit Partners, a specialist in private credit instruments
- Australian Entertainment Partners, to produce the AEP Screen Fund, an investment vehicle dedicated to supporting Australian film and television endeavours.

GSFM represents approximately $8.3 billion funds under management (as at 30 September 2023). For more information about GSFM please visit the website: www.gsfm.com.au