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FUNDS MANAGEMENT

CONVERSATIONS

Welcome to the third episode of Conversations for 2026. This year we're focused on the long view. CEO Damian McIntyre will be joined by investment managers and strategists from across GSFM's partner network to explore the long-term outlook for their respective specialties. While we will continue to monitor and address short-term market noise, recognizing its power to shift long-term outcomes, our primary goal is to provide you with a clear strategic perspective on the enduring trends shaping the future of investment.

Today, Damian is here in conversation with Eric Souders and Nigel Jenkins, both of whom are managing directors at fixed income specialists Payden and Regal. They'll discuss the long-term view for fixed income, notably the coexistence of early, mid and late cycle forces that explain why growth is resilient, risks arising and dispersion is elevated. Before I hand over, I need to read this important notice.

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Gentlemen, the floor is yours.

Damien McIntyre

Thank you very much, Tracey, and welcome everyone. I'd like to introduce Eric Souders from the Los Angeles Office of Payden & Rygel and Nigel Jenkins from the London office of Payden & Rygel, who are joining us this week in Australia to meet with our institutional and retail clients. Over the years we've been able to build a full book of business for Paden in the institutional and retail market in multi-asset credit products. It's great to have you both in the country with us this week. I will say though, Nigel's journey to Australia was a little more exciting for the wrong reasons than Eric's. Nigel, you left Doha about 90 minutes after the missile started flying on Saturday night?

Nigel Jenkins

Fortunately, it was 90 minutes before, so we did manage to take off, one of the last two take offs, there but for the grace of God and all of that.

Damien McIntyre

You arrived here safe and sound. It might be worthwhile just quickly if you could introduce yourselves gentlemen. I know Eric, you've been with us in the past. Of course, you're a star of finance TV in Australia with your appearances on Ausbiz, but perhaps you could just take us through your background; first Eric, and then Nigel if you could just follow Eric?

Eric Souders

Sure well thank you Damien, great to be here again with you. Star of Australian finance, I guess the hair and makeup though is working wonders on television and such. I've been with Payden now for approaching 13 years collectively,

working closely with Nigel and a couple of other portfolio managers on the multi-asset credit products as you mentioned. I've worked for BlackRock for a number of years on the corporate credit side and then also spend time at Guggenheim Partners focusing on securitised credit, so yeah the majority of my career at Payden.

Damien McIntyre

Good to be good to be with you today, and based in Los Angeles all that time?

Eric Souders

Based in Los Angeles for most of my career. I was with BlackRock in San Francisco; yeah it was pretty much safe to say that the West Coast is the fixed income hub of the United States, it's a very interesting kind of concentration of managers, particularly in Southern California, a whole host of institutional focused fixed income managers that have been there for decades.

Damien McIntyre

And Nigel, you're mostly in London?

Nigel Jenkins

I've spent the majority of my career as well working at Payden, but it's been a longer career, I'm older than Eric. I've been there, seen that and done it and got the t-shirt and all the rest of it. So yeah, I've been in fixed income markets for 35 years, in institutional fixed income money management for that whole period. I worked at Rothschild Asset Management but have been at Payden now for 20 years or so. Fixed income markets have been never ended the interest over that period of time; there's always something new just around the corner and that's kind of how it feels at the moment. From my observations across the globe, Europe in the UK seem to be growing in a different pace to the United States which seems to be growing in a different pace to Asia.

Damien McIntyre

Many investors appear to be set for one macro-outlook, how do you think this plays out?

Nigel Jenkins

By the way, thanks for inviting us here for this opportunity. I think the key is, in our view, not to attach yourself too strongly to a view of one state of the world, because we're in an environment at the moment with lots of crosscurrents. Global growth is not synchronous at all. We see different monetary policies over the last two or three years and over the next two or three years probably as well.

There's obviously a lot going on with geopolitics. Which ones of these various influences will dominate markets going forward is an open question. So, our approach is to discuss those issues thoroughly and take some views, but not tie our colours to one particular mast too strongly, because if that turns out to be the wrong one, then that can be problematic for returns. Being fleet of foot, being prepared to change your mind when the information you're faced with changes, that's what it's about at the moment. And I think at Payden we're pretty well situated to do that. We're not such a big organisation that it's like turning around an oil tanker. We can change direction rather more quickly than that. I think that's a good place to be in these volatile markets.

Damien McIntyre

Well, you've divided your universe of securities, so you can be quite active. How are you positioned today in terms of that stability versus opportunity framework?

Eric Souders

Yeah, I think Nigel said it well, I mean we're trying not to align portfolios with one single macro factor, we're trying to always focus on balance and price, right, compensation. So, I think the world has evolved the last 12 months, right, we've gone from recession risk a year ago, concerns around policy from the administration, leading to a contraction in the US economy, and potential recession. That obviously didn't happen, right, so we got kind of through the worst of that, the consumer remained very resilient, growth held up.

So, I think the US economy and the market's focus has gone from contraction and recession now to concentration, right, so there's more concentration now around US growth, tech is really leading the charge there, AI driven capex is now creating dispersion across markets. Last year it was rewarding most businesses, this year it seems to be punishing some.

So, I think just zooming out from the opportunity and stability mix of the portfolio is important to just kind of level set where we think we're at in the cycle. So we think we're at more of a kind of a dispersion point in the cycle is the point to that, right, concentration risk, more dispersion, for us kind of lends itself to making sure that we understand how we're aligned with areas that we think can win and areas that we think can lose. Now from a broad kind of distribution between opportunistic parts of the portfolio and more stable, we are actually leaning toward the more opportunistic part of the portfolio today because we do believe that AI driven capex is real, we do believe it's here to stay.

The industrialisation of the US economy, spend on infrastructure, reshoring, onshoring, those things we think have serious momentum. So, we think growth can remain buoyant in the US, so we are leaning toward the higher beta part of the portfolio. But again, it's focusing on parts of the market that we think are clear winners. Emerging market debt, we think is a big one that's going to be a direct beneficiary of AI driven capex given the control they have on commodities and natural resources globally. A higher quality part of the high yield bond market.

The high yield bond market is about as high quality as it's been going back 10 to 20 years, so we've got more exposure there. But then avoiding some areas we think we're going to be potential losers. Parts of the bank loan market, tech, software, and then certain parts of the consumer. As the economy has cooled broadly the last year or so, certain parts of the consumer we think will lose. So, if we like credit, we think that it can perform well given where we're at in our cycle. But I think dispersion is going to be a very key theme that we're going to continue to focus on in the coming quarters.

Damien McIntyre

Well, the other interesting thing that played out last year was as we worked through Liberation Day and the raft of tariffs that came and went, the world was expecting them to be highly inflationary. And certainly in the US at least, that hasn't played out. Is that a benefit to the opportunistic side of the portfolio as well?

Nigel Jenkins

In some ways, yes, because with the US economy in particular, but the global economy hasn't avoided an inflationary impulse from something that could have imparted inflationary impulse, it's quite supportive for the ability for central banks, particularly the Fed, to lower interest rates in the face of any economic problem that comes along. So broadly, you'd say that is supportive for risk assets.

It's much easier to impart accommodated policy when you need it if inflation is quiet. We were never really in the camp of expecting a big inflationary impulse from tariffs there. Our Econ team and us as strategists discuss this extensively. And really, we were more in the camp of seeing the potential for some moderation in growth being bigger than a real cycle. is really how we saw the price impact of tariffs, a likely one-off price increase, but not something that would get embedded deeply in the process that is inflation over a long period of time. That was even if the tariffs had stuck around.

We'll see going forward, but inflation is likely to be driven much more by things like some combination of energy prices, wage developments with a weakening employment market. These are the real fundamental inflation impulses rather than the one-off effects of tariffs.

Damien McIntyre

Well, energy prices seem to be driven at the moment more out of geopolitical risks than supply.

Nigel Jenkins

Yeah, I mean, I think the reality is coming into this situation with Iran, the global energy market, oil in particular, is fairly oversupply, which is probably a bit of a blessing coming into this situation. And perhaps one of the reasons that I know it's early days, but we're not seeing a big response in oil markets just yet. I think time will tell in terms of how the conflict evolves. But yeah, I mean, the world is fairly awash in oil supply. I think demand is going to be the key ingredient in terms of, you know, as that supply baits, how does demand look over the next three, six, and 12 months? And I think, again, where we're at in this cycle, we've been describing it as one economy with three cycles, with one cycle being the early kind of stages of what you would normally expect in an economic cycle, that really being underpinned by AI driven capex. That's going to have such a material impact on global commodities with oil being one of them.

Damien McIntyre

Can we just continue to explore that for a moment? Talk us through, you know, your view of the world where you say you've got one economy, three cycles. What does that mean?

Eric Souders

Yeah, I think traditional allocations tend to kind of focus on one single dominant factor or one single kind of part of the cycle that we're in, early cycle, late cycle, that can tend to have a more homogenous impact on various parts of the market, interest rate rates, credit risk, and currency risk. I think we have several things happening at once today.

AI and infrastructure investment, those feel early cycle. Broader economy in the US looks more mid cycle. Why? Because growth has slowed, wages have slowed, the consumer is slowing. And then you have parts of leverage credit that look more late cycle, right? I think, you know, the last several weeks, if not months, software in particular, in the tech market, bank loans, private credit, there's elements that look more late cycle. So, I think that makes static allocations less effective. And I think it makes, you know, really kind of blending various factors and trying to identify winners and losers that are at each part of this very, very distinct cycle right now.

Damien McIntyre

Of course, having the broadest toolkit at your disposal is really your advantage. Now you mentioned a minute ago that dispersion is growing. What does that mean for our clients out here in Australia?

Nigel Jenkins

Well, I think another way of interpreting dispersion is to say it's differentials in performance between different assets, and if you're an active manager, that's actively allocating across sectors, across regions globally that's a big opportunity for added value. So for us the more dispersion the better. This is an unusual situation where, you know Eric described those different trajectories in the US economy, but you look more than that to the global economy. And, as we said before, it's very asynchronous, you just see different impulses in different markets; you know maybe you know in your own market Australia raises interest rates this year Japan raises interest rates while the Fed is probably going to cut interest rates in our view and probably can cut in by more than is currently priced in. It's not so often that you see globally central banks moving in completely opposite directions. That's an opportunity for an active manager. The more dispersion the better.

Damien McIntyre

So what is your view for or what you see is the backdrop for global interest rates and currencies and where you see the opportunities in front of you right now?

Eric Souders

Yeah so probably at the heart of our views is that view I just mentioned that inflation is clear and the US will continue to be well controlled over the course of this year and in the US economy that's kind of fine, but you know employment growth has weakened the unemployment rate probably will edge up a little bit. That should be an environment where the Fed carries on cutting interest rates. So being quite heavily positioned at the short end of the yield curve, so being overweight of interest rate duration in that sort of part of the US yield curve is the place to be in our view. Probably it's an environment where we'd expect somewhat steeper yield curves globally.

Nigel Jenkins

In the US maybe being driven by that short-end falling yields on the back of cuts in the Fed funds rate. In Europe interestingly issue may be more a sell-off at the long end under the pressure of heavy issuance. There's a lot of issuance. Fiscal policy is very expansionary or should be set to be very expansionary in Europe this year. That's an environment where we imagine the short end being kind of anchored by stable rates plus the benefits of maybe a modest rally on the back of US interest rate cuts whilst the long end is pressured by this heavy supply and decent growth on the back of expansionary fiscal policy. And then in addition to those kinds of different forces from Europe and the US we have Japan kind of merrily doing its own thing. Japanese investors have been major influence on global financial markets for the last 20 or 30 years as their interest rates have been pegged at very low levels and it's all been about disinflation and deflation. That's changed now. We're now in an environment where Japanese inflation has been persistently in the 2% to 3% area. Interest rates are still very accommodated at the long end as it's continued to move back to somewhat more normal yield levels and for many Japanese investors that might mean going forward, they stay at home or repatriate some of their foreign assets.

So, the impact of Japan on foreign markets probably has more question marks against it going forward than it has for some time. Again, that's an opportunity for an active manager.

Damien McIntyre

Now Payden for years has been famous for a focus of the short end of the curve. Love the pull to par that something in the zero-to-three-year range gives you. Do you see that as particular strength in this current environment?

Eric Souders

Yeah, I think Nigel laid it out well in terms of potential volatility. Volatility can come in various forms. Inflation volatility and I think if inflation is structured higher, you're going to have higher volatility from inflation which probably leads to higher interest rate volatility which probably leads to higher credit volatility. So, we think we're in this environment now where volatility is likely to remain elevated and there are structural reasons for that. Labour markets are shrinking; supply chains are less deflationary than they were in the 2000s and 2010s and then of course AI driven capex is just going to create more of an infrastructural inflationary impulse. So that type of environment you want to find ways to insulate the portfolio in terms of price volatility and drawdown and the fixed income market has elements that are unique to fixed income.

One is a final maturity. Fixed income has a final maturity so as long as you do your credit work well you can get reasonably comfortable with getting paid back at maturity and that tends to create more resilience in shorter maturity bonds versus longer maturity bonds. Fixed income also has yield curve. Typically, that yield curve is upward sloping. 12 months and it was the prior 24 to 36, that also benefits the front of the yield curve. So, we like that part of the market because it really kind of isolates certain parts of the fabric of fixed income that can benefit investors. We think it helps insulate us a bit from the likely volatility that's to come in the next quarters if not years.

And then also it's pretty rich in terms of the opportunity set. You're not giving up a lot by concentrating your participation in the five-to-seven-year part of the curve and shorter. There's a tremendous amount of opportunity there. So yeah, for a number of reasons we like that part of the fixed income world, and it is very aligned with the fabric of Payden. I mean, Payden was born out of corporate cash management that was really emphasising preservation of capital and drawdown and the focus on the front end of the yield curve.

Nigel Jenkins

One of the things I'll add to that point is what focus on that part of the yield curve really gives us is a tendency to when we have a period of time where we don't get it right and I think we get it right more often than not, but you know, nobody's completely infallible. But you know, when we go through downturn in relative performance, we tend to recover that rather quickly. And that's partly to do with that shorter maturity focus and that pull to par.

Damien McIntyre

What we've seen in the last five years or so is an explosion in private credit in Europe, the US, Australia. In your observation, Will we rob Peter to pay Paul? Where is that money flowing to, that ordinarily, where would it have gone?

Eric Souders

The private credit growth has been tremendous the last 10 years. We could take this question a number of ways. I think that if we zoom out and we think about portfolio construction from a global standpoint, it seems reasonably clear that the world is overweight US assets. And that includes US equities, US credit both public and private, and then underweight certain parts of the world like emerging markets.

I'm not sure who Peter or Paul is in that analogy, but I think that it's very clear the world is overweight US assets collectively and has by and large been overweight US assets on an unhedged basis, meaning you buy US assets, you own dollars. You do that because it's worked, right?

US tech has been a tremendous performer the last decade or two, and then the US dollar in risk-off periods tends to rally, right? So, you have this natural hedge in your portfolio by being long dollars at the same time being long US assets. That's worked. That's changed. It's changed in the last 12 months. The dollar is weakened, and we're now gradually beginning to see more open-mindedness around the role that emerging markets might play in a global portfolio. So, for us, it's very clear the world is overweight the US, which really means they're overweight the US

consumer and tech. Emerging markets do not face those two factors. It doesn't face the US consumer directly, and in fact, it's going to be a beneficiary from what's going on in tech and AI, as mentioned earlier. So, it's really unique right now because EM, it's playing this diversification role in a global portfolio that it wouldn't normally play.

So private credit for us, say one more thing on private credit. Private credit, it looks comprehensively fragile, and there are a few reasons for that. One is the crowded nature of it. Two, the quality of it. If you look at the amount of single B or lower loans in the private credit market, in the US, it's roughly 90 percent. Ninety percent of the loans are single B-rated or below. Then you look at the concentration risk. Thirty percent of US private credit is in tech. Most of that is software. The top five industries in private credit in the US represent roughly 95 percent of the exposure.

So, you have lower quality, you have much more concentration, and you have less liquidity versus public markets. Something I've struggled with for quite some time around private credit is the lack of optionality. If equity markets go down and you want to buy stocks, if you own private credit, you can't do that. So, there's this embedded opportunity cost that I think investors have underappreciated for the last three to five years. But I think now the real story with private credit is quality and concentration risk relative to public markets.

Damien McIntyre

You like to invest in securitised products or structured products. How would you describe the health of those various sectors?

Eric Souders

Securitised is a very broad category. And by the way, just for listeners, it is far different than it was in 2007 and 2008. It does still have a bit of a scarlet letter, if you will, from that experience. But when we look at things like loan underwriting standards, alignment of interest between rating agencies, equity sponsors, bondholders, data availability, the market is in a much, much healthier place than it was 15 to 20 years ago. So, I think that's important to start with.

You have, Damien, you have this really wide opportunity set from consumer and commercial asset backed securities to commercial mortgages, residential mortgages, and CLOs. So, one of the big benefits of securitised is how broad it is and the diversification that it brings to a traditional fixed income portfolio, certainly, that is mainly government bonds and investment grade corporates, by and large. You're bringing in this tremendously large category where you can really pick your spots in terms of what part of the market do I want to be involved in, what industries, and then what part of the rating spectrum. When we look at the correlation benefit of securitised in our multi-asset portfolios, it's quite attractive. It has a number of elements that we like. And by the way, that market is now very global. You know, NYDR is based in London. I'm based in Los Angeles. The European securitisation market has grown significantly the last decade or so, as has the US market. So, what used to be a very US-centric market is now much more global in nature.

Damien McIntyre

Now, how should Australian investors be thinking about using multi-asset credit alongside traditional Australian bond portfolios? Is it simply diversification or is it more access to larger capital markets and by extension more opportunity?

Nigel Jenkins

Yeah, I think both of them. The opportunity set is absolutely vast. So active management within a diverse global multi-currency multi-sector fixed income universe, that's a very attractive proposition. You know not everything is going up at the same time, going down at the same time, that's an opportunity for active managers.

So, diversification is key, depth of market is really, really important. There are a lot of assets chasing the same investments but thankfully, globally there's a lot of choice of investment. I think global is the way to go. The US market tends to be quite central to the way we invest globally simply because it's the biggest market by a considerable distance. But the European market is growing enormously.

Eric just mentioned the securitised part of European corporate market investment grade and higher yield has been growing as well. So, the opportunity set is great if you have the resources to cover that and pay them as a specialist fixed income manager has the depth of resources to be making sensible decisions and trade-offs between different parts of an absolutely vast global market.

Damien McIntyre

Well, equally, given the Australian global fixed income products, if that makes sense, we tend to hedge out the currency exposure as well, not necessarily taking on this recent bout of dollar weakness, which who knows how long that continues, but in this environment, it's been beneficial to Australian investors.

Eric Souders

Yeah, to Nigel's point, I mean, being able to invest globally in areas like emerging markets where dollar weakness has been a big tailwind for that part of the world, you want to have access to that and really look outside of the US from our perspective. So, a global lens, a global opportunity set, particularly in an environment where dispersion is rising, it just gives investors much more flexibility.

Damien McIntyre

Well, gentlemen, thank you very much for your time this morning. I've really enjoyed the conversation, and I know you said for a big week here in Australia and I wish you the very best of luck. Thank you very much.