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Coronavirus market volatility: performance update

Fixed Income | 18 March 2020

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Spreads are much wider and government bond yields are failing to respond to the developing crisis. Corporate and high yield spreads have now widened to such an extent that on a long-term basis both offer much more compelling value. Global IG is now around 1.5 standard deviations wide of the 20-year average, while European High Yield has risen by around 3% so far this year. This means market returns are pretty poor. Euro High Yield is down 13% while Global IG is off by more than 2% – the latter being "protected" by a longer duration and the fall in US Treasury yields.

Generally, our portfolios have been defensively positioned in terms of market risk and in sector and security choice. This means that for most funds we are ahead of the benchmark. The macro team were long duration going into the crisis, which has clearly been beneficial. Our Absolute Return funds, where we were once again defensively positioned, are off a little this year against cash benchmarks, but this must be considered in the context of the collapse in equity and other risk markets.

Liquidity is of course poor and reminds us of other crises. We note that EM and HY liquidity is very challenged, as is IG and even parts of the government bond market. Our suspicion is that investors are using this latter liquid area of the market to meet cash demands – hence the surprising performance seen recently.

The encouraging situation is that after being expensive at the start of the year, there has been significant value created at these wider spreads. As mentioned, IG and HY spreads are more than one standard deviation wide of the long run (including the global financial crisis) average. We conclude that much bad news is discounted in present levels. We also note the distress in passive funds with ETFs trading at material discounts to net asset value.

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