Plant now and harvest in the future

Christian Hantel reveals what gardening and global bonds have in common

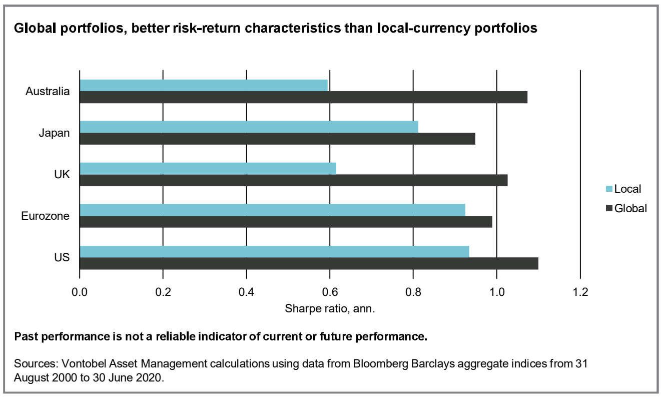
The year 2020 has been special, in particular for gardening. This year, we have all had to find new ways of not just working, but also how to spend our leisure time as well. So it was that I found myself in an unusual setting, the local gardening centre, to take on the challenge by planting a few trees in our garden.

It seems like the Covid-19 pandemic has created a new generation of enthusiasts who are finding that gardening is good for the soul. According to the Financial Times, gardening is now the second most popular planned leisure-time activity, ahead of reading, cooking and exercise. What comes first? Watching TV of course – Netflix for the win.

But back to my tree problem. What I initially thought would be an easy enough endeavour, planting a few trees, turned out to be much more complex. Lucky for me, there was a knowledgeable (and patient) tree specialist on hand to advise me.

As he talked me through my options, I discovered that gardening and corporate bond investing have much in common. In order to enjoy the sight of a beautiful tree in the future, you have to make some important decisions before planting, such as selecting your tree from a multitude of available seedlings and understanding what sort of conditions you should provide for it to grow.

As with trees, there are also plenty of issues to consider before building up your bond portfolio. An Indonesian proverb says, “The firm tree does not fear the storm”; neither should a robust bond portfolio. Just like a tree, a bond portfolio requires a healthy base from which to grow and that, I believe, is achieved by building a portfolio from a global opportunity set as it provides the greatest scope to diversify risks and generate income.



Be global – finding stability and income

Bond investors are all too familiar with the volatility that came to the fore in March 2020 with the onset of the Covid-19 epidemic. The solution to tackling volatility is diversification, a term well known to bond investors and often touted by portfolio managers. As countries, sectors and companies are in differing stages of the economic cycle, diversification across geographies and sectors is the way to make your portfolio more robust.

In order to prove this point, we looked at the Sharpe ratios of global bond portfolios as compared to local ones (the Sharpe ratio is an indicator of risk-adjusted returns, in which the higher the ratio the better the risk-adjusted returns, see chart). We found that global portfolios stood out to have higher Sharpe ratios, which indicates that investors who choose a well-diversified and global approach to corporate credit are likely to generate better returns while their portfolio enjoys a smoother ride over the long term.

Recently, rating downgrades have largely dried up, while the technical factors remain supportive for global corporate bonds, as demand for credit remains high. A phenomenon, which is not new but is reinforced as global yields continued to drop and some investors are running out of investment ideas.

Coming back to gardening: fall and springtime are considered the best times of year to plant new trees. Global corporate bond investing knows no seasons, but the current environment should be an especially fruitful one, provided you take a global approach.

For further questions, please contact Sheridan Bowers, +44 (0)20 7255 8321, sheridan.bowers@vontobel.com, vontobel.com/am

Written by Vontobel Asset Management senior portfolio manager, Christian Hantel

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