Marlborough
Fund Managers

Marlborough Global Bond: COVID-19 investment update

May 2020

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> ***"Many companies are seeking to raise additional cash. This, at a time when corporate bond markets have fallen a long way, is creating interesting opportunities in the new issues market."***
>
> Geoff Hitchin

Marlborough Global Bond Manager Geoff Hitchin explains his view on the outlook for bonds, how he and the team have responded to sharp market falls and where they believe opportunities may lie.

What is your view on the outlook for bonds?

"Most of the developed world has been in some form of lockdown in response to the COVID-19 pandemic and exactly what the impact of this will be on individual companies, national economies and globally remains highly uncertain.

"Governments and central banks have introduced stimulus packages on an unprecedented scale involving quantitative easing, bond-buying programmes and direct financial support to companies. The eventual implications of these emergency measures are also unclear.

"Amid the turmoil we are assessing the implications for bonds based on a range of outcomes. If economies do not recover for a prolonged period, this is likely to benefit bonds issued by the governments of leading countries and some supranational organisations, together with certain 'safe' corporate bonds.

"If there is more of a V-shaped recovery then bonds of quality companies currently yielding between 5% and 8% should provide a significant return. We consider the likely outcome to be between these two extremes but with a fairly extended timeline.

"We are endeavouring to position ourselves to take advantage of this over time, but with the emphasis on capital preservation in the near term. On this basis we do see advantages in bonds from an income point of view because, while companies can without too many problems cut or even cancel dividends, they will normally only be able to withhold bond payments as a last resort."

How have you responded to the sharp moves in financial markets?

"Since I launched the fund in 1987, I've seen no fewer than four previous crises in which markets have fallen dramatically: Black Monday in 1987, the Asian financial crisis in 1997, the bursting of the tech bubble in 2000 and the Great Financial Crisis of 2008.

"That's taught me lessons that I believe have stood the fund in good stead during the recent turbulence, principally, the value of a patient, cautious, long-term approach to investment. So, we haven't made any sudden, major changes to the bond holdings in the portfolio.

"We have been continuing to favour holdings in what are looked on as the safe haven currencies of the US dollar, Japanese yen and Swiss franc and have increased these recently to over 50% of the fund. Consideration of the pandemic has contributed to this increase.

"The lion's share of that exposure is to the US dollar, through a combination of dollar-denominated bonds and currency positions. We have smaller weightings in Japanese yen and Swiss francs and these are purely in the form of currency positions, so cash and forward foreign exchange contracts.

"That flexibility to use forward foreign exchange contracts to alter the currency profile of the fund is an important strength and sets us apart from some of our peers.

"We still have a substantial, if slightly reduced, sterling holding, reflecting the fact that this is a sterling-denominated fund and we still see the pound as perhaps having fallen too far."

Where are you seeing opportunities in bonds at the moment?

"As a consequence of the impact of the lockdown measures, many companies are seeking to raise additional cash. This, at a time when corporate bond markets have fallen a long way, is creating interesting opportunities in the new issues market.

"We're taking a very selective approach and, at the time of writing, we haven't yet found the right opportunities, but we're keeping a close eye on the new issues, particularly in sectors such as utilities, telecoms and media, which are more tempting than, for example, travel and most of areas of retail."

How is the portfolio positioned?

"Diversification continues to be a key strength for us and we're holding around 500 bonds from approximately 350 issuers.

"About 75% of the fund is in corporate bonds and of those around 80% are investment grade or equivalent. By rating we hold mostly BBB bonds, but this is the sector containing the largest number of bonds and our holdings reflect the companies we favour rather than the credit rating category in which they fall.

"At a sector level our weightings to industrials and utilities have been reduced a little, but on a long-term view we still maintain a preference for them over financials."

Risk Warnings

Regulatory Information

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