Dickie's View

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Richard "Dickie" Hodges, Manager of the Nomura Global Dynamic Bond Fund, provides his view of the fixed income market environment:

- The Middle East troubles do not derail our central view that the trade deal optimism is likely to continue to buoy risk markets and force government bond yields higher.
- Further geopolitical tensions will only deepen the need for the Federal Reserve and other Central Banks to remain accommodative.
- Volatility creates opportunity: we have short-dated, liquid cash proxies in the Fund that can be readily sold to participate in risk markets if the sell-off becomes unjustifiably large.
- We continue to expect higher risk asset prices and steeper curves in the short-medium term, along with subsequent economic disappointment.

Strategy & Positioning

Following the killing of Iranian military leader Qusem Soleimani, what we can see is the potential market consequences of heightened tension in the Middle East and work this into our view of markets in the short and longer term. Generally, we observe that such events tend to impact in the short term, before the macro environment reasserts itself.

Although risk markets have already adjusted lower, it is likely that they could move lower still if we see retaliation or any further escalation of tensions. Our views of both duration and risk markets over recent months has proven largely correct, and the Middle East troubles do not derail our central view.

The trade deal optimism is likely to continue to buoy risk markets and force government bond yields higher. However, the real economy is likely to continue to disappoint. This in turn will lead equity and spread markets to correct and lower bond yields, while the Central Banks remains firmly entrenched in accommodative policy.

Further geopolitical tensions will only deepen the need for the Federal Reserve and other Central Banks to remain accommodative. Higher oil prices might seem superficially inflationary, but they cannot be sustained within a weakened economic environment and Central Banks will not react to them with higher rates.

This volatility creates opportunity for the Fund. We have exposure to short-dated, liquid cash proxies in the Fund that can be readily sold to participate in risk markets if the sell-off becomes unjustifiably large. We expect this to be a feature throughout much of 2020. At the same time, our flexibility means that we can take further hedging through equity options and other tools.

Ultimately, we continue to expect higher risk asset prices and steeper curves in the short-medium term, along with subsequent economic disappointment which will drive the Central Banks to remain accommodative. As a result, asset prices will be supported in the medium-long term.

Richard "Dickie" Hodges

Dickie Hodges began his career in 1986 at Chase Manhattan Bank in Fixed Income operations, before joining Natwest Investment where he was responsible for management of a number of specialist investment funds employing derivatives and cash instruments to implement quantitative strategies.

He spent 18 years at Gartmore where he was Head of Pan European Portfolio Construction with responsibility for both their SICAV European Corporate Bond Fund and their SICAV European Bond Fund.

Prior to joining Nomura Asset Management in November 2014, Dickie held the role of Head of High Alpha Fixed Income at Legal & General Investment Management, managing its "Dynamic Bond Trust" – an unconstrained fixed income fund which he managed from its inception in 2007 until April 2014.

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