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Banor Capital: “Credit risk is on the rise. Aiming for quality is key”

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Today’s markets require caution. The environment is uncertain and caution is needed on the bond market. “In a stage of the economic cycle such as the one we are currently experiencing, historically the economy weakens and credit risk increases”, explained Francesco Castelli, Fixed Income Manager at Banor Capital. Referring to the part of the portfolio exposed to bonds, the expert advised that we take on relatively limited risk, opting for intermediate maturities between 3 and 5 years.

In the bond segment, opportunities are found specifically in individual companies. “Seize these opportunities nonetheless, preferably through investment funds that specialise in high-yield securities and are managed by sector professionals.” In this stage of the economy, more companies go bankrupt. Individual companies, therefore, must undergo an appropriate credit analysis. In fact, this variable has significant impact on high-yield securities. “Because of this, we are taking a great deal of caution in this particular segment.”

How do I choose? “In an environment where government securities have rates nearing zero and the economy shows signs of slowing, we are more likely to be exposed to risk on corporate bonds with a quality rating [BBB or higher]”, said the expert. “We also favour maturities of 3-5 years in this segment. Right now, in Europe, the opportunities with attractive returns —those over 2%— are found in good quality issues in the automotive sector, for instance.”

Around which currency should I base my choice? “For those wishing to take on foreign exchange risk, limit this to a portion of the bond portfolio no greater than 15-20%. The US dollar has much to offer, again in the motor industry, with returns of 4.5-5% on maturities with 3-5 years”, said the expert. “Moving on from the automotive sector to primary issuers, Apple, for example, has a return of 2.75% on the same maturities.”

Opportunity also lies in the currencies of emerging countries. “They crop up with average rates around 5%, but with higher volatility”, said Castelli. Choose with a focus on greater portfolio diversification. This type of opportunity, however, requires limiting investments to a portion of around 5%.