

PRIVATE ISSUES, THE TABLES TURN FOR BONDS

There are niches for investors that still offer attractive opportunities. Like green bonds, among others. A Message from Francesco Castelli, Bond Manager at Banor Capital

By Sergio Luciano

IT IS A MOST SURREAL TIME FOR THE FINANCIAL MARKETS AND, IN PARTICULAR, FOR THE FIXED-INCOME MARKET, ONTO WHICH THE UNLIMITED FORCE OF THE CENTRAL BANKS IS DIRECTLY OFFLOADED. THE CENTRAL BANKS ARE INJECTING CASH INTO THE SYSTEM EVERY DAY BY PURCHASING GOVERNMENT BONDS OF THEIR OWN AND FOREIGN COUNTRIES.

Nonetheless, even in this unprecedented environment, good investments are possible: the message from Francesco Castelli, Bond Manager at Banor Capital and manager of the Banor Sicav Euro Bond fund. He begins by saying, "It is clear that, at a time when the ECB and the Federal Reserve are the biggest purchasers of the government bonds issued by their respective monetary areas, the interest rate is decided by them and no longer by us investors".

Mr Castelli, how so, if we might ask?

There is an unprecedented time where the central banks are practising a targeted monetary policy to ultimately dissuade us from investing in bonds.

So, what now?

Those who invested in bonds are driven by the central banks to do something else, those who bought government bonds now buy corporate bonds, and those who bought corporate bonds now buy stocks, all of which is intended to push us to be less afraid and therefore take more risks in the hopes that the economy will recover.



FRANCESCO CASTELLI

AT THIS POINT THE BOND MARKET IS ESPECIALLY INSTITUTIONAL: FUNDS ARE ESSENTIAL TO SEIZE OPPORTUNITIES

So, how does a major institutional investor like Banor react?

The current government market, especially one as super secure as Germany, is no longer a market for private investors nor even for institutional investors like us. It is a market for investors who are obligated to buy. We institutional investors firstly attempt to explain to customers that bonds are no longer the asset class they used to be. They are no longer a source of income, unfortunately. In the best cases, they make for a good parking spot. So we are directing them towards the niches in the bond market that still offer opportunities.

For example, all green issues, green bonds, which exude ESG opportunities...

They are certainly initiatives of great interest. They also give an idea of how even bond investors are moving towards the green world. Green

bonds are basically from issues in which the issuing company undertakes to invest the borrowed money in green initiatives only. Our work as credit analysts is to select green companies that are sustainable and respect certain criteria, and this is truly important for the future.

It will not be easy...

What we often have doubts about is seeing companies that are absolutely not green or sustainable, but are issuing these green bonds and exploit them to obtain better interest rates from investors. To convince us to subscribe to them, we want to speak with the issuer, to evaluate the company as a whole. Our impression is that there are some issuers that are absolutely not sustainable which exploit sustainable issues to survive, to guarantee their own unsustainable business model a future paid paradoxically by green investors looking for green bonds.

Even in Italy, there have been many favourable private issues. How do we intercept them?

Look, for legal reasons the corporate bond market is now becoming a particularly institutional market. Firms like ours are contacted in the morning and informed of issues that are implemented at 11, so we have to decide extremely quickly. Otherwise, it is a market prevalently managed by funds, and I believe, on the other hand, that investing in funds is a big help for private investors.