Il Sole 24 ORE

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It's better to gamble on short maturities and variable-rate bonds

ADVICE

Liquidity, short-term bonds or variable rates: this is the expert advice for a bond portfolio protected from rising interest rates.

The shock absorber

According to Francesco Castelli, Head of Fixed Income at Banor Capital, it is still too early to bet aggressively on bonds due to the upward pressure on rates that is driving down prices and the withdrawal of central banks, which will reduce market liquidity. It is better to redefine the financial duration of these securities, because long-term bonds, which tie the investor to rather unattractive rates, tend to get sold off and their prices go down. "The ideal option", says Castelli, "is to keep up to 25% liquid (despite the low yield) for the second half of the year. One could partly diversify into other currencies, such as the Japanese yen, which has depreciated, or improve yield by taking advantage of the better rates on bonds in dollars". According to Castelli, a bond portfolio should be approximately 35% government bonds (including BTPs) with maturities between five and thirty years. Including such long maturities is acceptable with the suggested high percentage of cash. The rest of the portfolio should be 10% inflation-indexed bonds, which have already had a very good run, and 30% debt instruments. Castelli specifies that, "For debt, we suggest maximum diversification: 10% corporate bonds [from private companies], which are better if they are global and have exposure to the US market and are attractive after losses of almost 9% since the start of the year; 10% high-yield bonds, with moderate maturities; 10% emerging-market bonds, with half in strong currencies and half in local currencies".

Francesco Castelli

Head of Fixed Income at Banor Capital