



RBC BlueBay
Asset Management

Going global in investment grade

For Professional Investors Only | Marketing Communication



Kaspar Hense
BlueBay Senior
Portfolio Manager
Investment Grade team

Published April 2024

“The fundamental law of investing dictates that the broader this opportunity set, the higher the alpha.”

Global investment grade government bond markets can result in a well-diversified portfolio with low credit risk. Kaspar Hense looks at why the current market environment means a wealth of investment opportunities for active managers.

Why global fixed income?

The most straightforward benefit of ‘going global’ is diversification, which means taking less risk than investing in domestic bonds but obtaining approximately the same yield. This is achieved through the use of a hedged benchmark, as typically, FX volatility is too high for fixed income. Therefore, the information ratio of a global fixed income product should be a better one than investing purely in domestic bonds.

Why active?

We believe that active management is the best way to capture a global opportunity set. The fundamental law of investing dictates that the broader this opportunity set, the higher the alpha, when manager skill is positive. We think that this is particularly true in global fixed income markets, which have low correlation to each other. Smaller markets in the global investment grade universe, such as Mexico or Hungary, tend to have very different volatility patterns to each other, and can have low correlation to core markets in the US or Europe.

Why now?

Looking at the current market backdrop, we think that with rates at current levels, the time is right to invest in global bonds. The last 10 years provided a favourable environment for equities, however this is reversing to some extent. Yields, in general, were low, so it was cheap for companies to refinance. Additionally, fiscal measures (particularly in the US where debt-to-GDP grew from 65% to 130%) boosted growth during this period. However, going forward, debt repayments and healthcare and social security costs mean there will be less capacity for discretionary spending.

In Europe, countries such as France and Spain have witnessed a growth in debt-to-GDP, but in others, such as Germany and the Netherlands, it has come down. There will therefore be more fiscal spending in Europe over the next five years, and especially on the discretionary side. That opens up opportunities in the Euro area, where we think spreads are well supported this year, spending is increasing, and EU-financed debt will most likely come via the European Innovation Partnership (EIP).

“Looking at the current market backdrop, we think that with rates at current levels, the time is right to invest in global bonds.”

2024 is the year of the election, with nearly half the world's population going to the polls. This will offer a plethora of investment opportunities in fixed income markets. The South Africa election is set to take place in May, followed by Mexico's in June, the US election in November, and an as-yet-undecided election in the UK. These elections will drive markets, which will drive yields, which will drive breakevens, which will drive currencies via the measures taken by incumbent governments.

Conclusion

In summary, a global universe increases the frequency of alpha capture, allowing us to choose the most compelling investments and take advantage of different economic environments. As always, the important ingredients for active alpha are the right opportunity set, dispersion, proprietary analysis and strong fund construction and risk management.

Why RBC BlueBay?

Wide dispersion in macroeconomic expectations means that volatility is set to continue in global markets. This environment is particularly attractive for our investment grade proposition – with plenty of alpha to capture – by what is a very stable experienced team of 20 years, using a proven strong disciplined investment process.

At RBC BlueBay, we have delivered above alpha target returns over the last 14 years, for all of our six benchmarked investment grade products, with information ratios close to 1 (above our 0.5 target), across nearly all time horizons. This demonstrates solid and consistent performance generation, and it has proved that we are able to generate excess returns in many different market environments, including challenging periods, such as the Global Financial Crisis (“GFC”) and the pandemic.

We believe we can achieve this going forward, but with high yields to start with. While cash rates are close to 5%, yields on the benchmark are somewhat lower (4.5%) but can be locked in. We think inflation will remain high and volatility linked to inflation will continue to exist. For example, the race to the White House looks increasingly like Trump's but with tax cuts, a more restrictive immigration policy and increased trade protectionism this could be a challenge for inflation. In Europe, productivity is lower than the US, therefore wage pressures are likely to put pressure on inflation given the record low levels of unemployment.

Nonetheless, the cash rate will decrease over the next 12 months, by approximately 100bps. Locking in high yields now – via longer duration maturities – makes sense, even if yields are not coming down as much as some market participants think or as much as we saw after the GFC. We think it will be a slower process but that also means higher yields for longer, for global fixed income investors.

This document is a marketing communication and it may be produced and issued by the following entities: in the European Economic Area (EEA), by BlueBay Funds Management Company S.A. (BBFM S.A.), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany, Italy, Spain and Netherlands the BBFM S.A is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In the United Kingdom (UK) by RBC Global Asset Management (UK) Limited (RBC GAM UK), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts at the registered office of the Swiss representative or at the registered office or place of residence of the investor shall have jurisdiction pertaining to claims in connection with the offering and/or advertising of shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), the Packaged Retail and Insurance-based Investment Products - Key Information Documents (PRIIPs KID), where applicable, the Articles of Incorporation and any other document required, such as the Annual and Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Asia, by RBC Global Asset Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong. In Australia, RBC GAM UK is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, by RBC Global Asset Management Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. RBC GAM UK is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permits RBC GAM UK to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. In the United States, by RBC Global Asset Management (U.S.) Inc. (“RBC GAM-US”), an SEC registered investment adviser. The entities noted above are collectively referred to as “RBC BlueBay” within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of RBC BlueBay by the respective licensing or registering authorities. Not all products, services or investments described herein are available in all jurisdictions and some are available on a limited basis only, due to local regulatory and legal requirements.

This document is intended only for “Professional Clients” and “Eligible Counterparties” (as defined by the Markets in Financial Instruments Directive (“MiFID”) or the FCA); or in Switzerland for “Qualified Investors”, as defined in Article 10 of the Swiss Collective Investment Schemes Act and its implementing ordinance, or in the US by “Accredited Investors” (as defined in the Securities Act of 1933) or “Qualified Purchasers” (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer.

Unless otherwise stated, all data has been sourced by RBC BlueBay. To the best of RBC BlueBay’s knowledge and belief this document is true and accurate at the date hereof. RBC BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. Opinions and estimates constitute our judgment and are subject to change without notice. RBC BlueBay does not provide investment or other advice and nothing in this document constitutes any advice, nor should be interpreted as such. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product in any jurisdiction and is for information purposes only.

No part of this document may be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose in any manner without the prior written permission of RBC BlueBay. Copyright 2024 © RBC BlueBay. RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited and RBC Global Asset Management (Asia) Limited, which are separate, but affiliated corporate entities. ® / Registered trademark(s) of Royal Bank of Canada and BlueBay Asset Management (Services) Ltd. Used under licence. BlueBay Funds Management Company S.A., registered office 4, Boulevard Royal L-2449 Luxembourg, company registered in Luxembourg number B88445. RBC Global Asset Management (UK) Limited, registered office 100 Bishopsgate, London EC2N 4AA, registered in England and Wales number 03647343. All rights reserved.

Published April 2024

RE/0081/04/24



RBC BlueBay
Asset Management