

## BRANDYWINE GLOBAL INVESTMENT MANAGEMENT, LLC



## Finding Value in Global Bond Markets

On being awarded the 2015 Best of the Best 20-year and 3-year Global Bonds awards for its Global Fixed Income Investment-Grade strategy and Global Multi-Sector strategy, respectively, *Asia Asset Management* spoke with David Hoffman, Chairman and Portfolio Manager of Global Fixed Income, and Gary Herbert, Portfolio Manager and Head of Global Credit.



David Hoffman

Gary Herbert

designed to anticipate risk and uncover value, we look for attractive combinations of high real yields and durable fundamentals. While benchmark-aware, our approach is generally benchmark-agnostic. Our goal is to avoid the inefficiencies of global bond benchmarks, as we believe that cap-weighted indices are distorted by very large levels of low yield issuance in a few markets.

***Asia Asset Management: How would you describe global bond markets in the current financial environment?***

**Mr. Hoffman and Mr. Herbert:** The current environment is a difficult one for global bonds. Macroeconomic challenges, such as low oil prices, weak commodity markets, and slowing global growth, continue to face off against stimulative factors, including accommodative monetary policy, cheap energy, devalued currencies, and low interest rates. Investors must choose between “safer” markets where return prospects over the next few years are limited and “riskier” markets. These riskier markets have come under pressure over the past three years, but likely represent a superior return opportunity over the next three to five years and beyond, in our view.

***How do G3 markets compare to non-G3 and developing markets?***

**Mr. Hoffman:** Heading into 2016, we believe 30-year Treasuries and other high quality, high yield sovereigns offer value far in excess of German Bunds and Japanese Government Bonds where nominal yields are lower. In this current environment of low nominal growth and low inflation, US Treasuries are likely to act as a deflation hedge, as well as help offset volatility investors may be experiencing in other parts of their asset allocation. Longer term, we believe return prospects for sovereigns are most attractive outside of the G3. Structural improvements in many non-G3 economies have led to an increase in credit quality and liquidity while reducing risk factors. Meanwhile, developing country sovereigns may offer even more outsized opportunity, given their combination of nominal yields and currency valuations.

**Mr. Herbert:** With respect to corporate credit in hard currencies, both high yield and investment grade, we are beginning to see attractive value in the US and Europe. However, we would eschew opportunities in emerging market credits at this time.

***How would you describe your strategy when investing in global bonds?***

**Mr. Hoffman:** Brandywine Global adheres to a top-down, value-driven approach that is influenced by our global macroeconomic outlook. Backed by a rigorous macroeconomic research process

**Mr. Herbert:** Similarly, credit indices can be skewed by distinct sector concentrations. We first focus on identifying high real yield bond markets. Rigorous country analysis helps to gauge the structural strength and weakness of an economy, exposure to shifting global forces, and the significance of economic policy from the perspective of a fixed income investor. For our credit strategies, we then determine whether particular credits offer value given their default-adjusted probabilities relative to their credit spreads. We rotate our portfolios to those markets where we believe value exists, or where real yields are high and currency and credit valuations are attractive.

***What are the advantages of investing in global bonds rather than in a single country?***

**Mr. Hoffman:** Investors who seek opportunities across global bond markets rather than within a single country may realise multiple benefits, including the opportunity to strategically invest in markets with higher yields. When constrained to a single country, investors limit their potential sources of return and expose themselves to increased interest rate risk.

**Mr. Herbert:** In a global portfolio, an investor can diversify across multiple yield curves and credit curves that do not all move in tandem, moderating interest rate risk. Furthermore, a global portfolio allows for currency risk diversification. Investing in the right countries and credits, coupled with currency appreciation or selective hedging, offers excess return potential along with the potential to enhance diversification benefits and reduce overall volatility relative to purely domestic bond portfolios. ■

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