



# THE TORTOISE & THE HARE – THE CONTINUED IMPORTANCE OF THE BOND MARKET

Alastair King, Chairman, Naisbitt King Group

Webinar

Tuesday, 9 February 2021, 9:00am GMT

# A Word From Today's Chairman



**Professor Michael Mainelli**

Executive Chairman

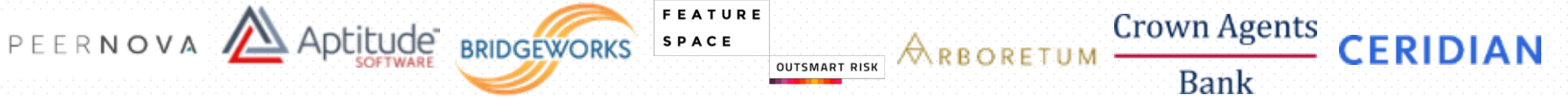
Z/Yen Group

# FS Club

## Platinum Sponsors



## Gold Sponsors



## Silver Sponsors



## Bronze Sponsors



## Personal Sponsors



# Today's Agenda



- 09:00 – 09:05 Chairman's Introduction
- 09:05 – 09:25 Keynote Address – Alastair King
- 09:25 – 09:45 Questions & Answers

# Today's Speaker



**Alastair King**

Chairman

Naisbitt King Group





**Presentation to the FS Club**  
**by**  
**Alastair King**  
**Chairman – Naisbitt King Asset Management Limited**  
**9 February 2021**

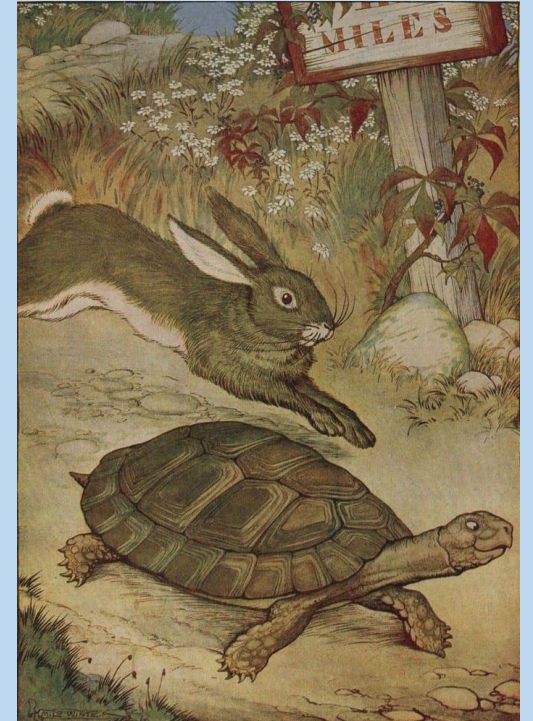


**Integrity • Vision • Performance**

# The Bond Market Tortoise v. The Equity Market Hare – who won?

Myths about the bond market:

- It's boring?
- Returns are not very exciting?
- It's overvalued?
- Little liquidity?
- Governments are no longer scared of it?



# The Reality

Boring?

- The bond market includes the US 10 Year Treasury Note (proxy for the RFR)
- It encompasses so much more – eg T-bills, T-bonds, Gilts, Infrastructure, Credit
- Bond market is enormous – over 500,000 traded bonds in the bond universe? Not the case that prices for issues move in unison
- ESG/sukuk/China/India etc
- An allocation into fixed income is an essential element of an investment strategy.

Returns are not exciting?

- a liquid, steady and reliable income stream
- with potential for capital growth and (usually) a higher yield than cash?





# The Reality (continued)

It's overvalued?

- Overvalued? Dow Jones trading at P/E 30x; S&P trading at P/E 38x. CAPE/Schiller PE ratios
- Risk of rising yields is real but higher than risk of equity market fall?

Little liquidity?

- Dodd-Frank etc – removal of proprietary trading – reduction in liquidity
- But – look at Carnival Corporation – 100 vessels across 10 cruise line brands – when the music stopped?
- New issuance market well covered



# Poll Number 1

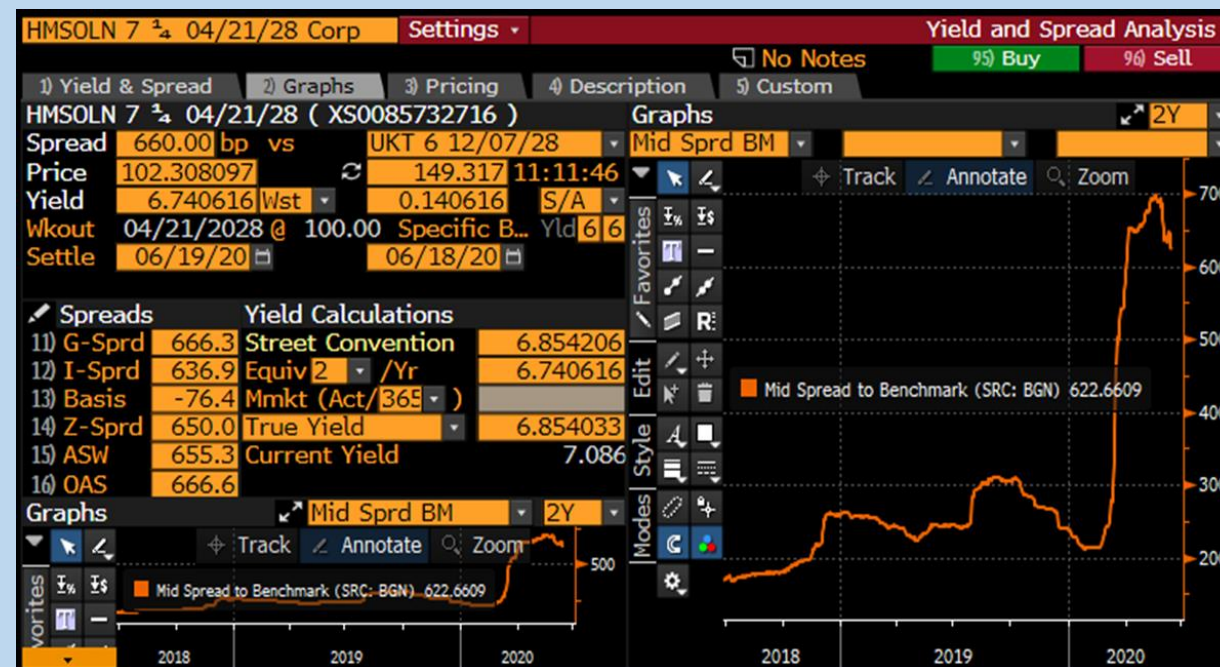
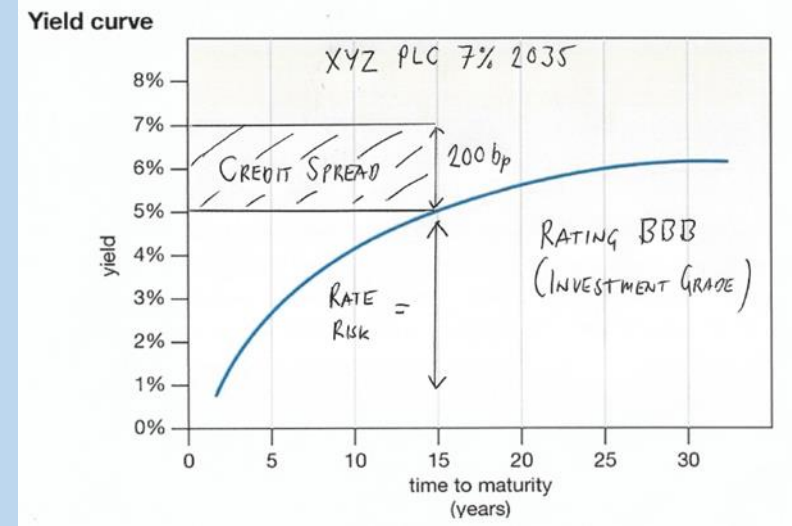
With interest rates so low and likely to remain so for years, Governments are no longer scared of the bond market.

**TRUE / FALSE**



# What does an investor need to know?

- Every corporate bond has a benchmark government bond.
- The spread is simply the difference between the two yields. (Gvt & Corporate Bond).  $6.74\% - 0.14\% = 660\text{bp}$ .
- Spread based market – way to identify valuation. G+660. The spread is driven by issuers riskiness/prospects. Tightens if good. Widens if bad.
- What causes spread to change? Spreads are often a leading indicator.
- Market language is the credit spread: eg 660/650 Except in HY – where spread too large.



# What drives the price of a corporate bond in the secondary market?

- Essentially the same things that drive an equity price. Eg Burford – Muddy Waters.
- AA plc. Whole Business Securitisation – Senior & Subordinated bonds.
- 5.5% 2022 bond is subordinated to other bonds – but still senior to equity.
- Real fears of default & refinancing risk as a result of Covid & 9x leverage.
- c14% yield. Refi risk?
- Covenants on senior but not subordinated. Senior risk c6% yield.

Determinants of Corporate bond price. Key elements:

1. Credit Risk:
  - A. Idiosyncratic issuer risk. Eg AA Class B refinance fears.
  - B. Market risk - Credit spreads widen/tighten reflecting general economic risk.
2. Rate Risk. i.e. the change in interest rates.



# Poll Number 2

Where is the centre of the  
bond world?

1. New York
2. Singapore
3. London





# London centre of the bond world:

- Deep pools of liquidity
- Multiple market makers
- Smaller participants to be the marginal buyer/the marginal seller
- Specialist firms – extraordinary expertise in specialist areas of the market
- % of secondary market trades
- Price



# Alive and Kicking

*Alive and Kicking*  
(Jim Kerr - Simple Minds – 1985)

*Who is gonna come and turn the tides?  
What's it gonna take to make a dream survive?  
Who's got the touch to calm the storm inside?  
Don't say goodbye, don't say goodbye  
In the final seconds, who's gonna save you?*

*Ooh-oh, ohh-oh*  
*Alive and kicking*

- What else is going to finance the COVID-19 relief efforts worldwide?
- What else will provide reasonably secure income streams to match long term liabilities?
- What else is going to provide a yield?

**Reports of the demise of the bond market  
are greatly exaggerated**

**IMPORTANT NOTICE:**

The information was obtained from sources viewed to be reliable, but Naisbitt King Asset Management Limited cannot guarantee its accuracy or completeness. Outlooks and past performance are not a guarantee of future results. Prices of investments may go down as well as up. The investment strategies described herein may not be suitable for all clients. This document is not intended as investment advice. It does not constitute a financial promotion and it does not contain any investment recommendations. It is not directed at retail clients. For a fuller disclaimer, please see the Naisbitt King Asset Management Limited website – [www.naisbittking.com](http://www.naisbittking.com).



# Questions And Answers

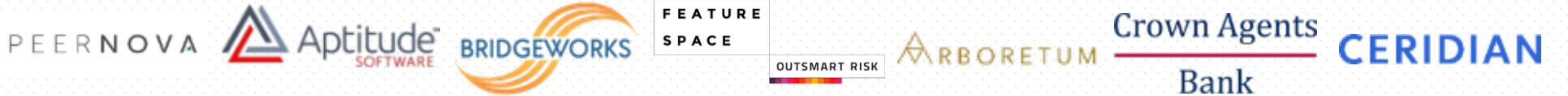


# FS Club

## Platinum Sponsors



## Gold Sponsors



## Silver Sponsors



## Bronze Sponsors



## Personal Sponsors



# Thank You For Listening



## Forthcoming Events

- Thursday 11 Feb (18:00) Re-run: "Life Is Wonderful: Mandela's Unsung Heroes" - The Rivonia Trial
- Friday 12 Feb (11:00) Socially Progressive Corporations - The Historic London Rubber Company
- Monday 15 Feb (15:00) The Post Pandemic Office – Legal Rights And Responsibilities
- Tuesday 16 Feb (10:00) Financial Centres Of The World 2021: Focus On Luxembourg
- Thursday 18 Feb (10:00) Automated Horizon Scanning – Does This Really Reduce Organisational Risk
- Friday 19 Feb (11:00) Post Covid-19 Business Model And Policy Choices For Digital Finance In Europe

Visit <https://fsclub.zyen.com/events/forthcoming-events/>