

29 January 2018

LA STAMPA

The Banor approach: caution and careful selection to beat the monetary policy unknowns



In the view of Massimiliano Cagliero, founder of Banor SIM, with guidance from specialists in the sector it's still possible to discover double-digit returns.

2018 won't be an easy year for the bond markets: after so many years of fears that were then proved unfounded, the time for disappointments could come soon. A lot will depend on the central banks' decisions. In fact, monetary policy will be the year's big unknown. Bonds will, however, continue to be an important component of many Italians' investments. Over the last 30 years, flows in the bond segment have seen unstoppable growth which, according to some observers, could change direction – to the benefit of equity – at the first hiccup. Not to mention the imminent rise in interest rates, which, inevitable as it may be, represents the true question mark for the market: how much, and when.

In the opinion of Massimiliano Cagliero, formerly of Goldman Sachs and founder of Banor SIM, "the world changed on, precisely, 6 July 2016. On that day, government rates reached their all time low: 10-year German rates were -0.20%. Madness! It's since then that government bonds have experienced a slow, but constant, loss. Anyone who, like us, opted for investment in corporate bonds stayed safe and enjoyed a further 18 months of rises".

What strategy do you advise

"We suggest caution. The successes we've seen in recent years shouldn't lead us to forget the challenges we'll need to face in future years. Investment opportunities are being restricted to increasingly limited

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areas. For example, at present we're focusing on relatively low-yield opportunities (2-3%) but with good protection of capital in a scenario of rising rates. We're limiting investment in government paper: with the economy growing, we're still focusing on investment in corporate bonds but avoiding issuers with excessive leverage.

What action are you taking?

"Each issuer in our portfolio is followed by one of our analysts. We prefer to stick to positioning with a cautious duration and systematically select bonds with relatively close maturities, rarely above five years".

Is it maybe time for a check-up for positions in the portfolio?

"Definitely. We prefer sound positions and sell those that are too volatile, even if that means sacrificing returns. For anyone with a longer perspective, and who can tolerate some illiquidity, we recommend moving to special opportunity/distressed investments: with the guidance of a specialist in the sector, you can still discover double-digit returns. Past successes shouldn't, however, allow us to forget the challenges ahead. The bond investment world has changed a lot in recent years and investment opportunities are becoming restricted to increasingly limited areas. In the last few years we've concentrated on maximising returns by exploiting the opportunities offered by corporate bonds, our speciality".