

Fixed income gains appeal



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MARKETS

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Malayan Banking Bhd (Maybank) investment banking group head, fixed income research, Winson Phoon said inflation fears have dampened the risk appetite for sovereign bonds but safer assets tend to perform when investors start to worry more about credit risk than interest rate risk.

PETALING JAYA: Interest in fixed income investing has been increasing amid the dampened outlook of the local equity market.

Principal Asset Management chief investment officer, fixed income Asean, Jesse Liew said the company was currently seeing more traction in terms of interest for fixed income funds as bond yields are relatively attractive, given that Bank Negara has just raised its overnight policy rate (OPR) for the second consecutive time, this year.



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domestic fixed income space following the weaker equity market,” Liew told StarBiz.

Generally, when interest rates go up, bonds – which are one of the most common forms of fixed income investment options – will see their prices fall.

“On a relative basis, fixed income investments in Malaysia do look attractive following the correction in the domestic bond market in the first half of this year,” Liew said.

He said domestic bond yields have largely priced-in potential OPR hikes by Bank Negara and he expects the yields to stay range-bound and supported.



OCBC Bank (M) Bhd executive director of wealth advisory Michael Lai pointed out that while the fixed income space has enjoyed better buying support, buoyed by light equity positioning activities across regions, buying sentiments may retract heading into the second half of 2022 as fears of recession risks continue to take dominance.



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“In view of that, we expect fixed income investment returns to stabilise while providing positive returns going forward,” he said.

OCBC Bank (M) Bhd executive director of wealth advisory Michael Lai pointed out that while the

across regions, buying sentiments may retract heading into the second half of 2022 as fears of recession risks continue to take dominance.

Citing data from Bloomberg, Lai said portfolio flows for Malaysian bonds has generally been volatile over the last 12 months.

“However, based on the most recent data for May 2022, flows into Malaysian bonds did turn positive.

“This might indicate increased interest in local bonds as rising interest rates throw up opportunities from the mispricing of high quality local bonds.

“For investors who are concerned about the prospects of a recession, investment grade bonds offer some level of shelter from the volatility of risk assets such as equities. Thus, it is not surprising to see the recent positive flows into local bonds,” Lai told StarBiz.

That said, inflation and weaker growth combine to increase recession risks, which do not spare any assets including fixed income, he noted.

He said with the central bank guiding for a steady pace of interest rate normalisation, local fixed income assets’ performance would be capped by the tightening environment.

But this would also present investors with the opportunity to pick up high quality assets at a discount as bond prices adjust to the higher interest rates.

“Provided investors are prepared to weather short-term price volatility, and hold these bonds to maturity, local bonds present investors with a steady income stream in an increasingly volatile environment,” Lai said.

He said the cure for, and side effects of, inflation - arising from interest rate hikes - have been dominating discussions in fixed income markets since June.

“Upward surprises on inflation data and a hawkish Federal Reserve stance combine to raise the risk of a recession.

“It is doubtful that the combination of persistent high inflation and slowing growth will be rosy for either equity or fixed income,” Lai said.

However, he points out that this does not mean everything is economically grim “as long as investors practise diversification in their investing”.

“Markets have gone through massive repricing and at current valuations, we do see the trend in fixed income remaining supported if not increasing.

“However, it is important to be picky in the sense of quality. We remain cautious but fixed income nowadays is a need rather than a want hence the question is really about weightage and allocation_____



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Malayan Banking Bhd  (Maybank) investment banking group head, fixed income research, Winson Phoon said inflation fears have dampened the risk appetite for sovereign bonds but safer assets tend to perform when investors start to worry more about credit risk than interest rate risk.

“Malaysian government bonds are expected to gradually regain their appeal amid growing external headwinds,” he told StarBiz.

Maybank Asset Management Sdn Bhd chief investment officer Syhiful Zamri said due to higher yields and its safe haven nature, the company is seeing liquidity flowing into the local fixed income space.

“Investors have started to participate in fixed income investments as yields have spiked up to pre-pandemic levels,” he told StarBiz.

Syhiful said year-to-date, up to June 30, the performance of fixed income assets as per the Bond Pricing Agency Malaysia All Bond Index was down 2.35%, compared to the stock market which recorded around an 8% fall.

“We expect both asset classes to deliver positive returns in the next 12 months with equities to deliver higher returns naturally, versus fixed income due to its sharper recovery despite higher volatility.

“However, fixed income investors should be comforted as current yields are high, thus providing better returns compared to fixed deposits.”

OCBC’s Lai points out that fixed income is an investment approach focused very much on preservation of capital and income and should never be compared to stocks or equities.

“These two asset classes offer completely different sets of potential and risks. They work as a package rather than as different entities,” he said.

Lai said investing in fixed income assets is often perceived as a financial tool that offers a steady stream of income with less risk than stocks.

“However, with the enhancement of financial assets in the market, it is now important to differentiate between high-yield and investment grade categories of fixed income.”



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