
Towers Watson downgrades intermediate bonds

By Editor Test *Wed, Mar 7, 2012*

In the medium-term, as private-sector deleveraging problems fade, there is likely to be a stronger and faster cyclical recovery than most intermediate bond markets appear to be pricing, the consulting firm said.

Towers Watson has downgraded intermediate global government and intermediate inflation-linked bonds to 'highly unattractive'.

The global professional services firm says ongoing money-printing by central banks and flows into so-called safe assets have pushed intermediate bond risk premiums to very low levels that no longer properly compensate long-term investors for taking duration risk.

Peter Ryan-Kane, head of Portfolio Advisory for Asia Pacific at Towers Watson, says intermediate bonds "now offer a very low risk premium over cash and/or are discounting a high probability of a macroeconomic backdrop of 10 to 15 years of economic stagnation. This is too pessimistic in our view and our forecast returns suggest bonds are now unattractive."

Towers Watson research suggests that, in the next year, deleveraging, easy monetary policy and flows into so-called safe bonds are likely to keep bond yields and bond risk premiums low. In the medium-term, as private-sector deleveraging problems fade, there is likely to be a stronger and faster cyclical recovery than most intermediate bond markets appear to be pricing.

"If investors have a diversified portfolio and a cash benchmark they should typically reduce duration risk by, for example, selling some intermediate bonds to buy cash and high-quality credit to maintain portfolio risk," Ryan-Kane said.

"Given bonds at most maturities are unattractive at the moment, our general view is that a controlled short interest rate position relative to a fully hedged position is sensible, consistent with the size of other risks within the portfolio."

© 2012 RIJ Publishing LLC. All rights reserved.