Transcript: 2024 Outlook and investment strategy
PIMCO | CIBC Global Balanced Growth Fund

[CIBC Asset Management logo]

[What is your 2024 outlook for global multi-sector fixed income?]

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We view fixed income markets as broadly attractive for a few key reasons. The first is because of the fact that yields are compelling. Secondarily, valuations are very attractive as well.

[Computer-generated (CG) image of market data. A jumbo stock ticker on the side of the building switches from green to red.]

Additionally, we'd also note that bonds offer investors resilience, and this resilience is particularly important in light of the fact that volatility is increased over the last two years, and particularly geopolitical risks and market risks remain elevated.

Now we believe intermediate bonds are perhaps the most attractive area of the bond market. You don't have to go too far out the maturity spectrum to acquire value in the bond market today because intermediate value can be found in the intermediate area of the yield curve.

Particularly, it's important note that resilience is offered by bonds today. Bonds offer resilience because of the fact that now yields are at much more attractive levels.

[Images of the exteriors of Central Banks.]

Cash overtime will see yields decline as central banks lower interest rates or their changes in monetary policy.

[CG image of market data. Man looks at financial data on multiple screens.]

Additionally, we believe that investors have been sitting on the sidelines for too long, and may miss out by trying to time their re-entry into the bond market. If current economic conditions persist, the bond market will offer equity-like returns to investors. We've not seen stocks this expensive compared to bonds since 2007.

Consequently, we do not believe that equity markets will remain this expensive compared to the fixed income markets going forward. And this offers investors an opportune time to lock in yields and their fixed income portfolio

[How are you positioning your investment strategy to align with this outlook?

(CIBC Global Balanced Growth Fund)]

[Bank of Canada sign. US Currency being counted in a machine. Sheets of Canadian money being printed.]

Today we are neutral with regards to duration or interest rate risk. We believe that now the growth and inflation risks are more evenly balanced after the rally in late 2023.

[Market data in a monitor.]

Yield curves are unusually flat today, and for that reason they remain inverted, which we do not think will last forever. But we have a steepening bias, thinking that over the long term, the front-end rates will come down and the back-end rates will increase. For these reasons, we believe that fiscal concerns will continue to weigh on the back-end of the yield curve. So, we have an underweight to the 30-year maturities while being overweight to the 5-to-10-year areas of the yield curve.

Now when it comes to credit risk, we do not believe you have to take excessive amounts of credit risk to find value in the bond market today. Unlike the corporate bond market, which is trading below its 10-year averages, we believe the securitized markets, which are backed by hard collateral, are particularly compelling today.

[Exterior of the White House. Aerial view of an affluent suburban neighbourhood.]

Within the securitized markets, we favor US agency mortgage-backed securities, which benefit from a guarantee from the United States government, as well as non-agency mortgages, which are AAA rated and high in quality as well.

Within securitized markets, we also focus on CLOs and asset backed securities, as well.

[Market data in a monitor. The exterior of the Federal Reserve building in Washington, DC.]

Within corporate bonds, we do find some areas of value. In particular, we like to trade the indices derivatives of corporate bond that are high grade or high yield in nature. Furthermore, we also look to invest in the senior financial corporations, and the banks at the top of the capital structure.

Now when it comes to building a portfolio, we do believe that we'll see continued levels of volatility and as a result of that, we used narrow analysis to be able to navigate the area, which we'll see elevated volatility going forward with a possible recession.

[Market data reflected in a person’s glasses. Two people look at multiple screens showing market data.]

In building a portfolio, we think it's important to focus on managing and navigating around with diversification, liquidity, and ample amounts of a range of outcomes that we may provide with the portfolio today.

We believe fixed income should be overweighted in your portfolio to compliment your equity exposure, to limit the drawdowns for a potential recession. And that investors should be able to be cautious when it comes to more economically sensitive areas of the corporate bond markets such as floating rate bonds.

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