



FIXED INCOME  
IN THE TIME OF YIELD RISING

# QUESTIONS WE ALL ASK OURSELVES:

1

What  
happened?

2

What asset  
classes are  
better for us  
given the history?

3

What will happen  
now?

4

How shall we  
react?

1

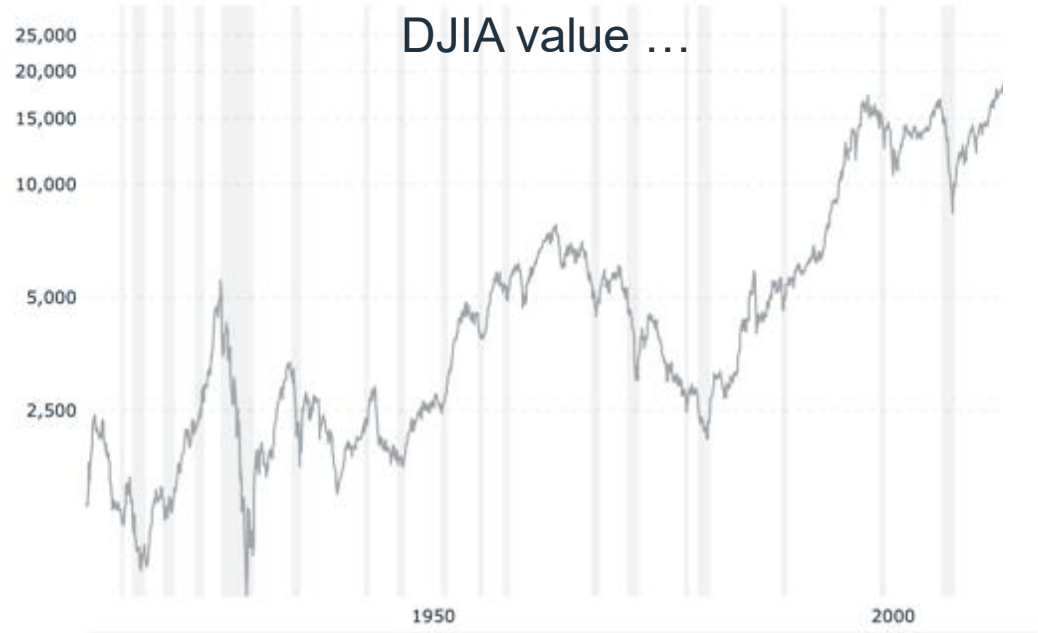


# WHAT HAPPENED?

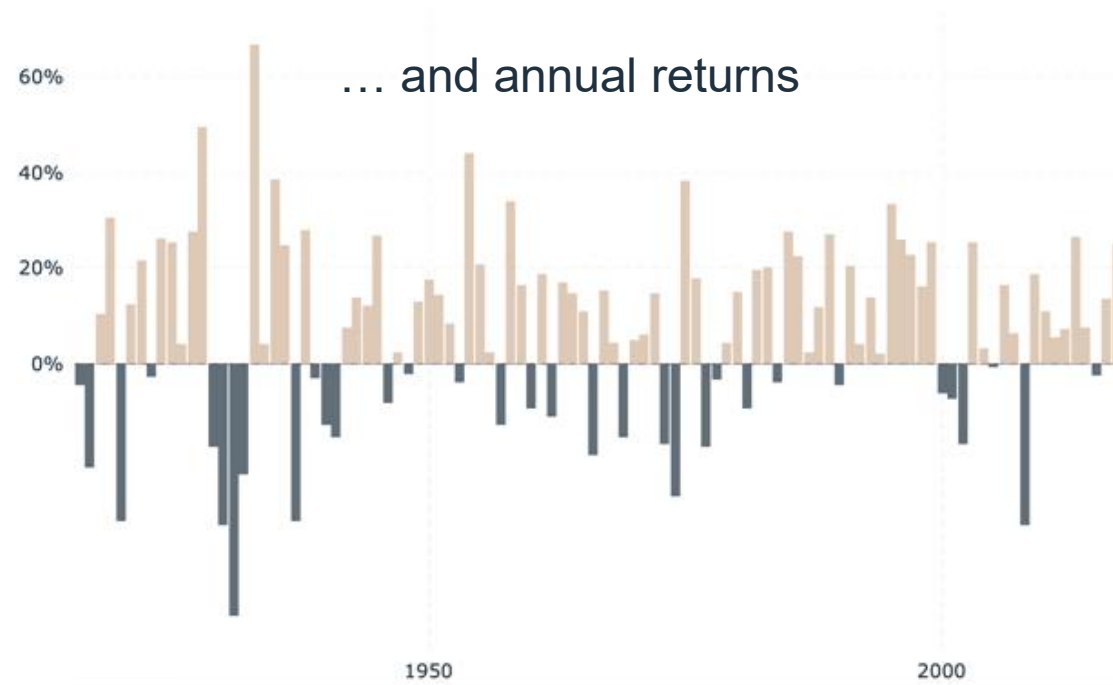
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## Recent history

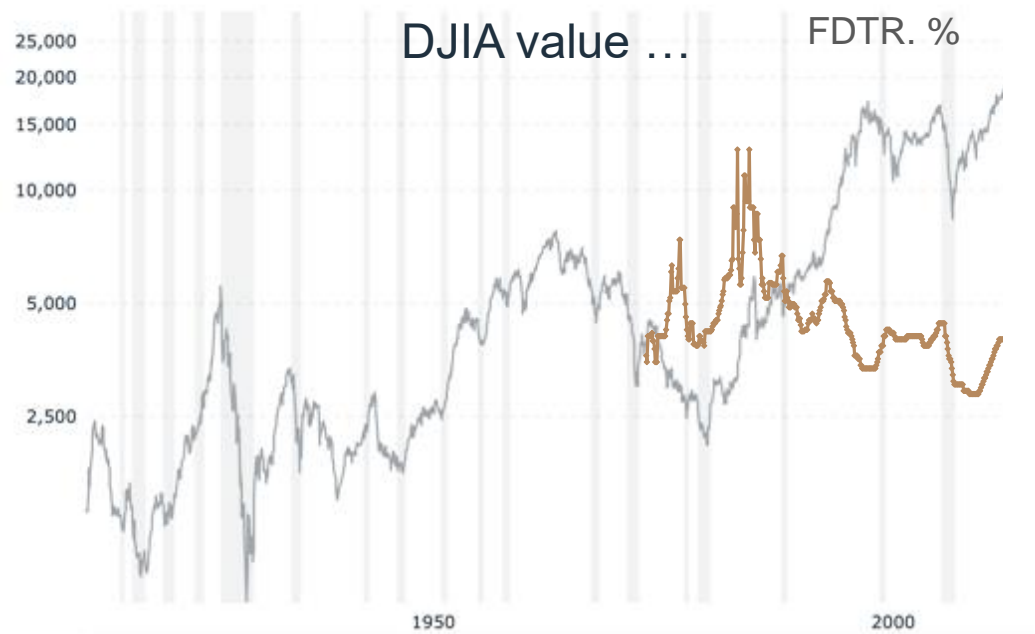
Rates down – assets up



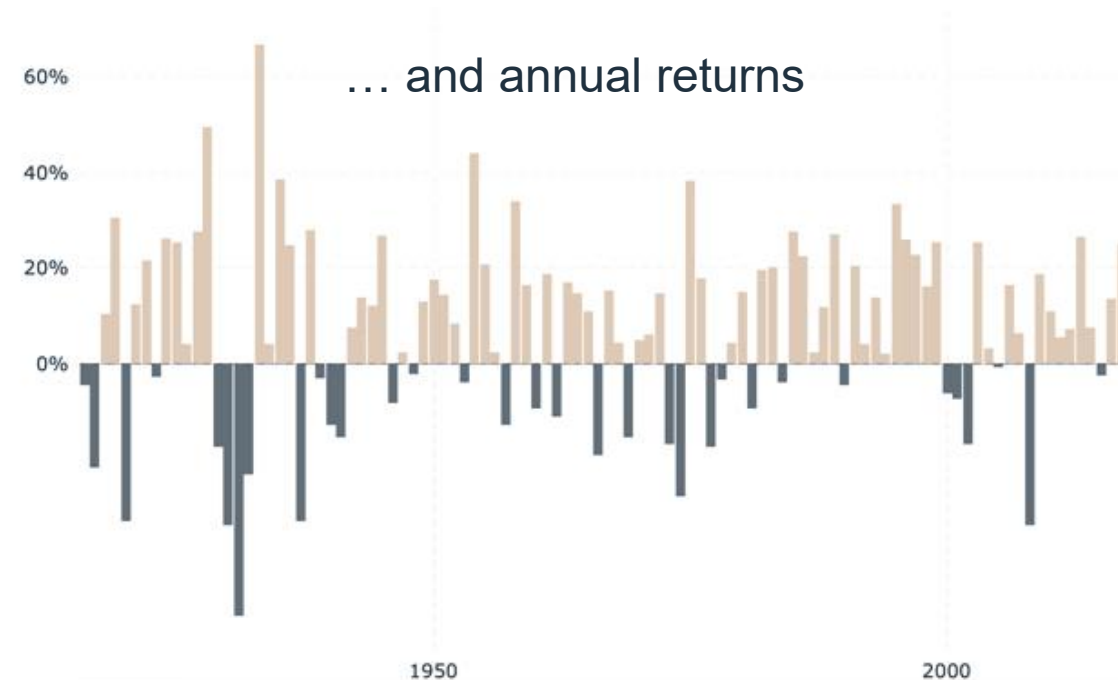
Since 2008 it's been an extremely steep growth of assets prices, alike the one in 1990-1998. Historically such rallies ended up in decades of stagnation or even decline



Last 10 years the positive returns were close to average, though there were almost no negative annual returns - the thing that never happened before

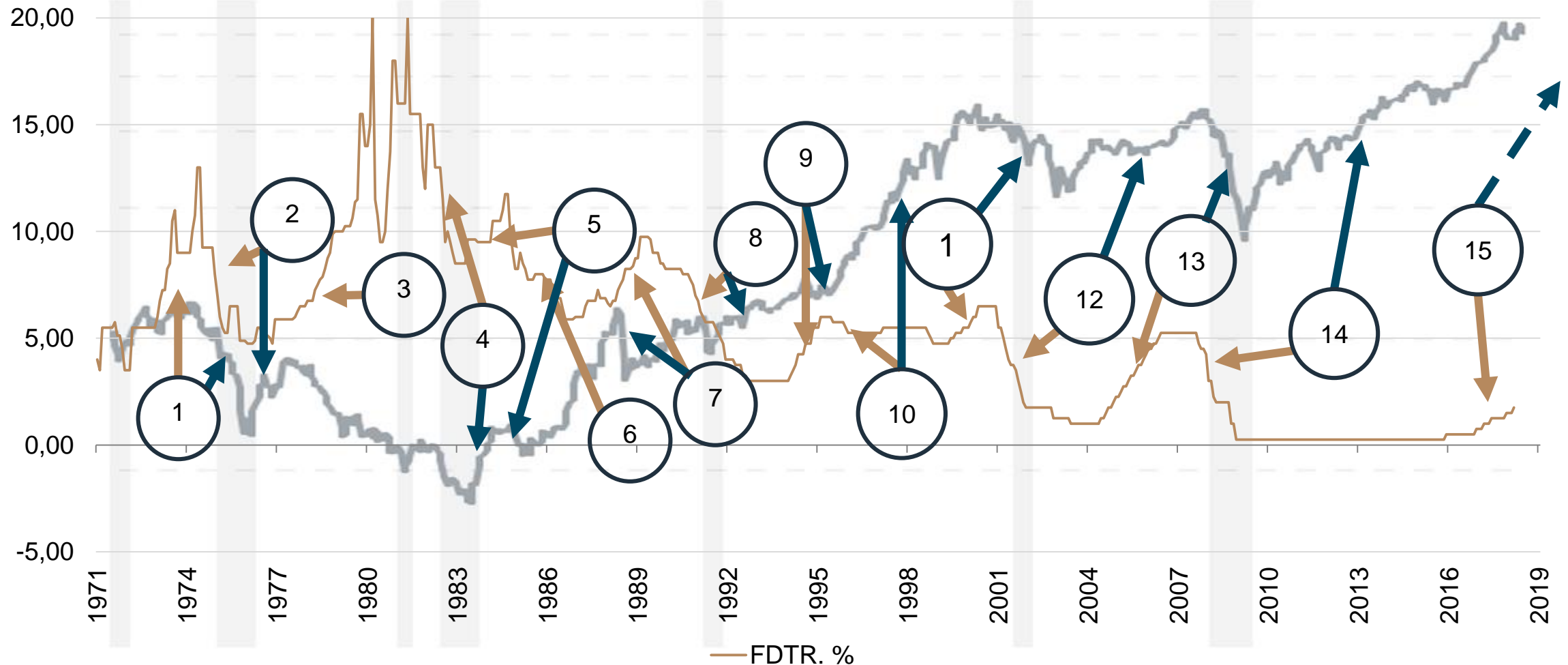


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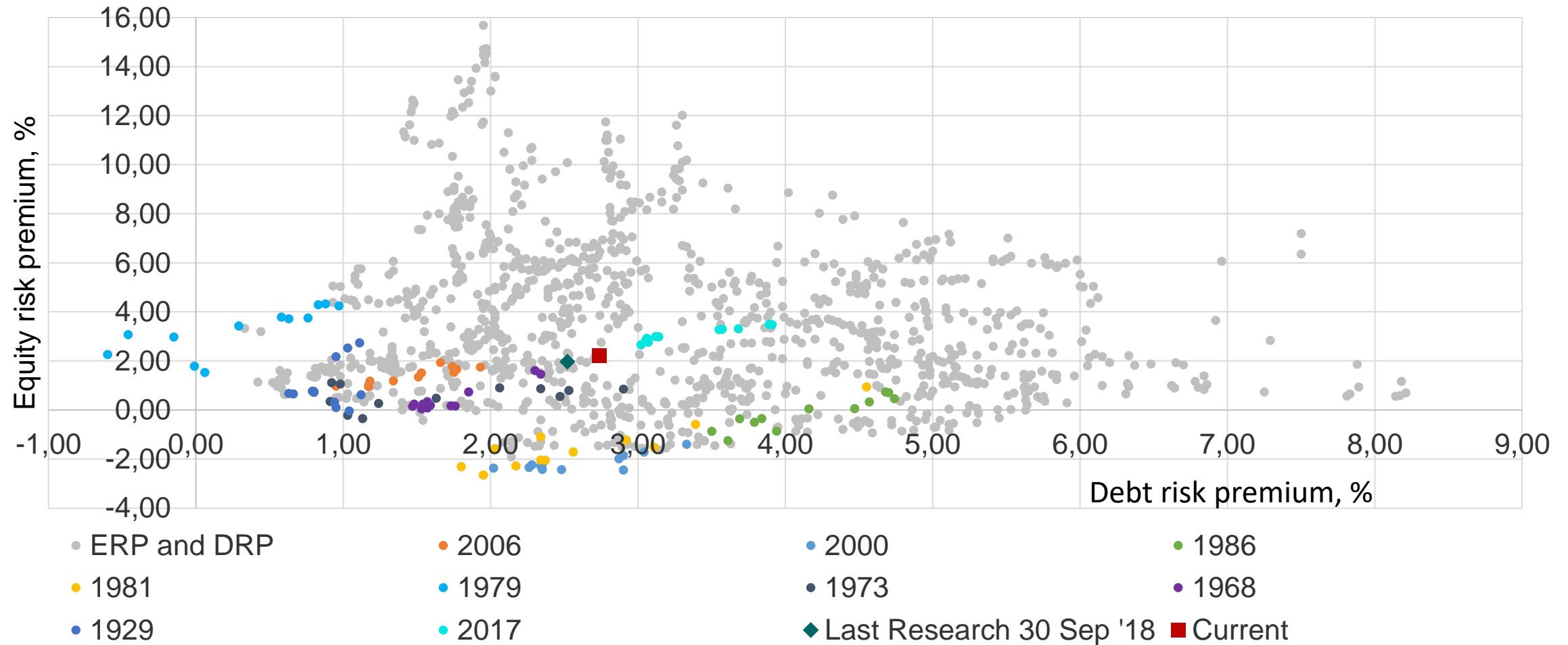


Last 10 years the positive returns were close to average, though there were almost no negative annual returns - the thing that never happened before

# The rally was fueled by decreasing cost of money



# Risk premiums are not yet at their lows – but close



2



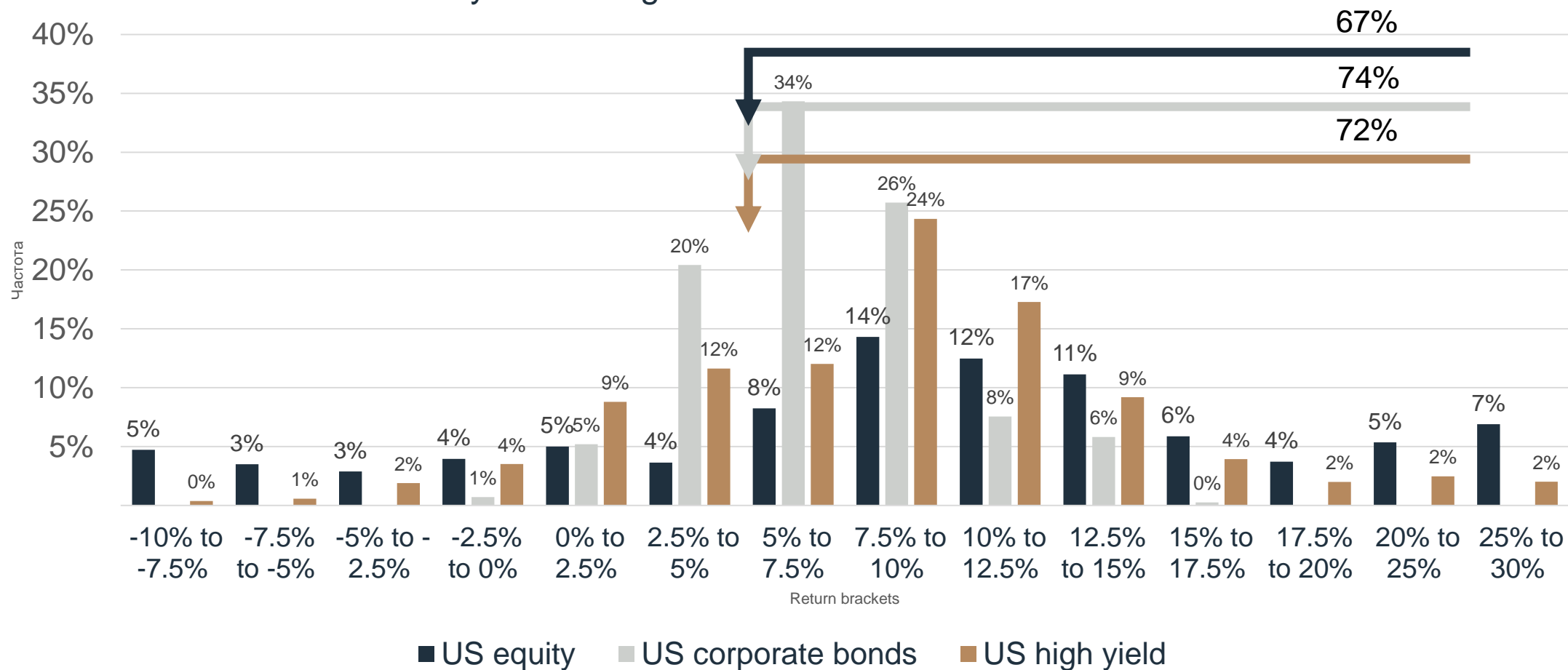
# WHAT ASSET CLASSE TO CHOOSE?

## Asset classes dance

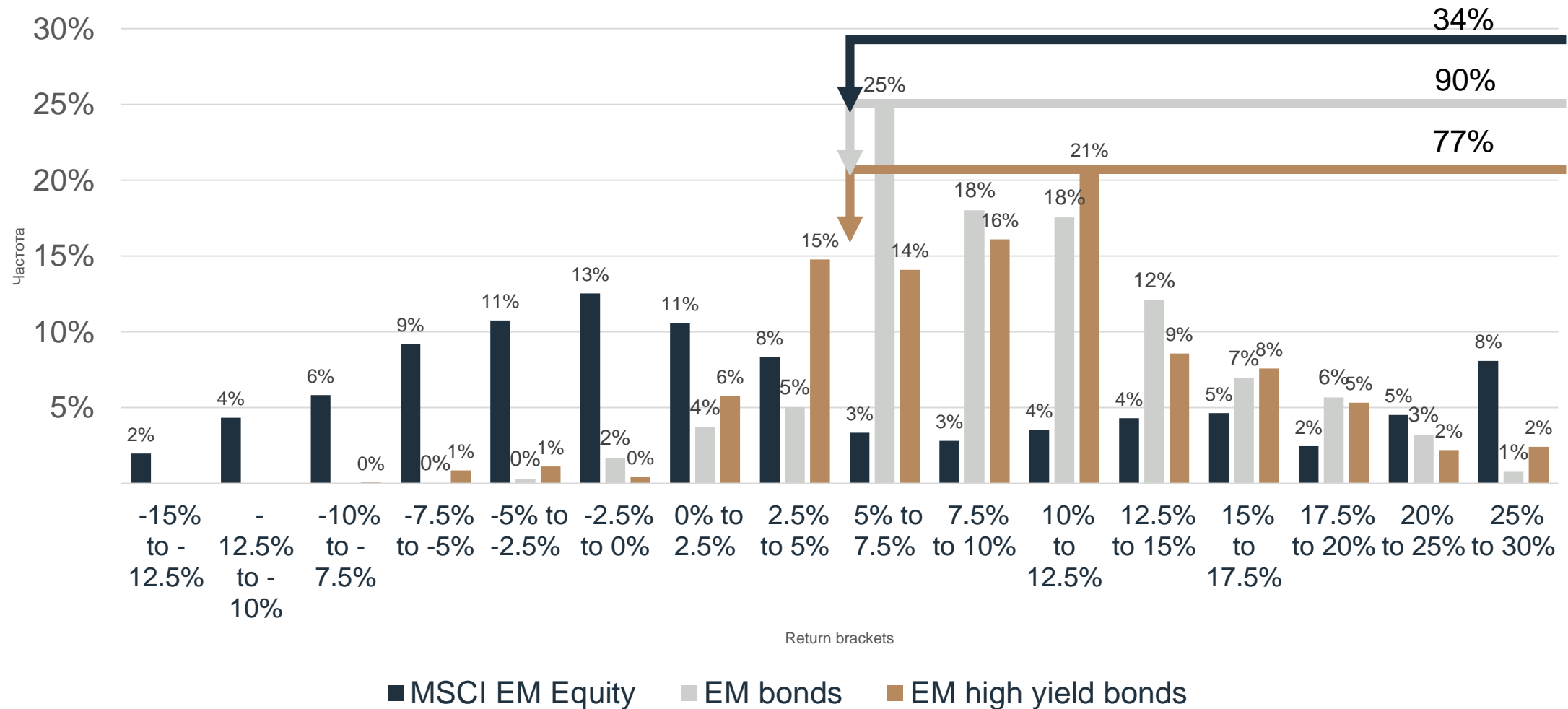
Equity is not the best asset class - surprisingly



## 3-year holding returns distribution since 1990



## 3-year holding returns distribution since 1990



3

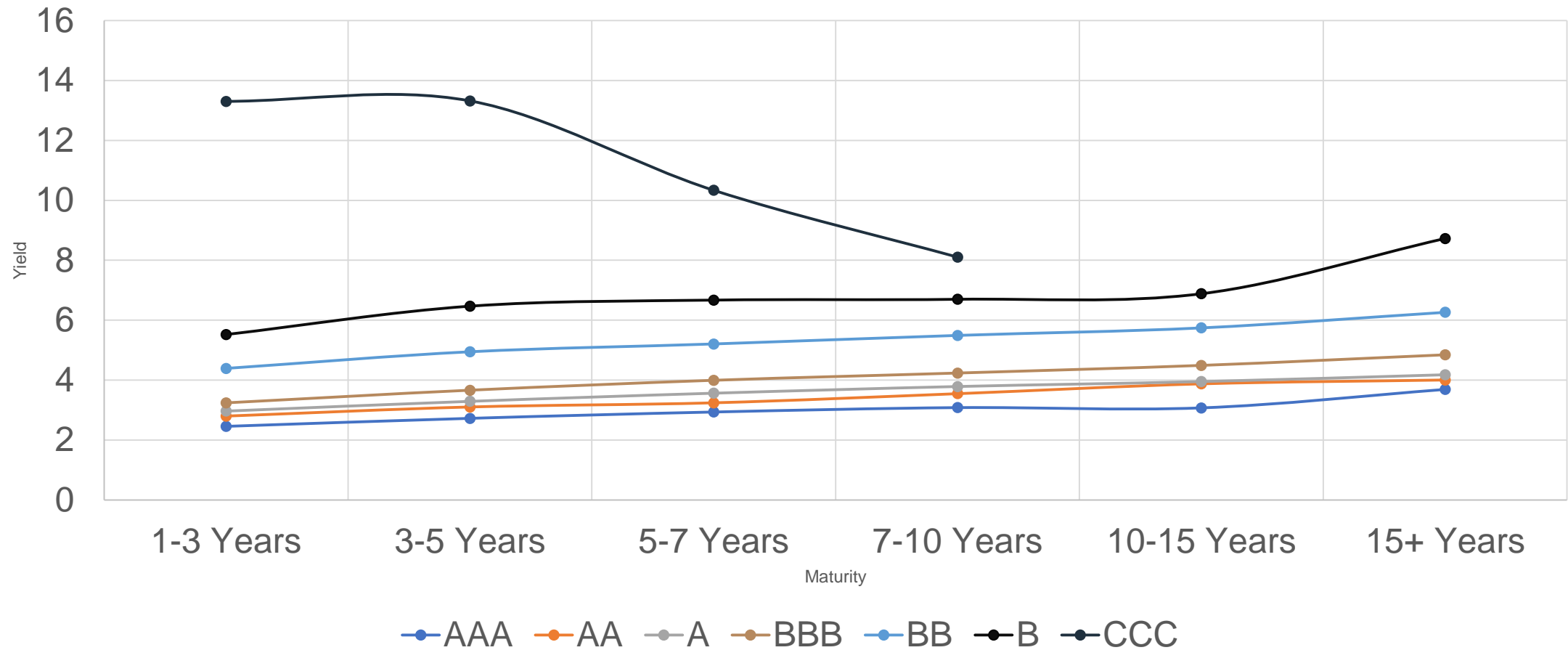


## WHAT WILL HAPPEN NOW?

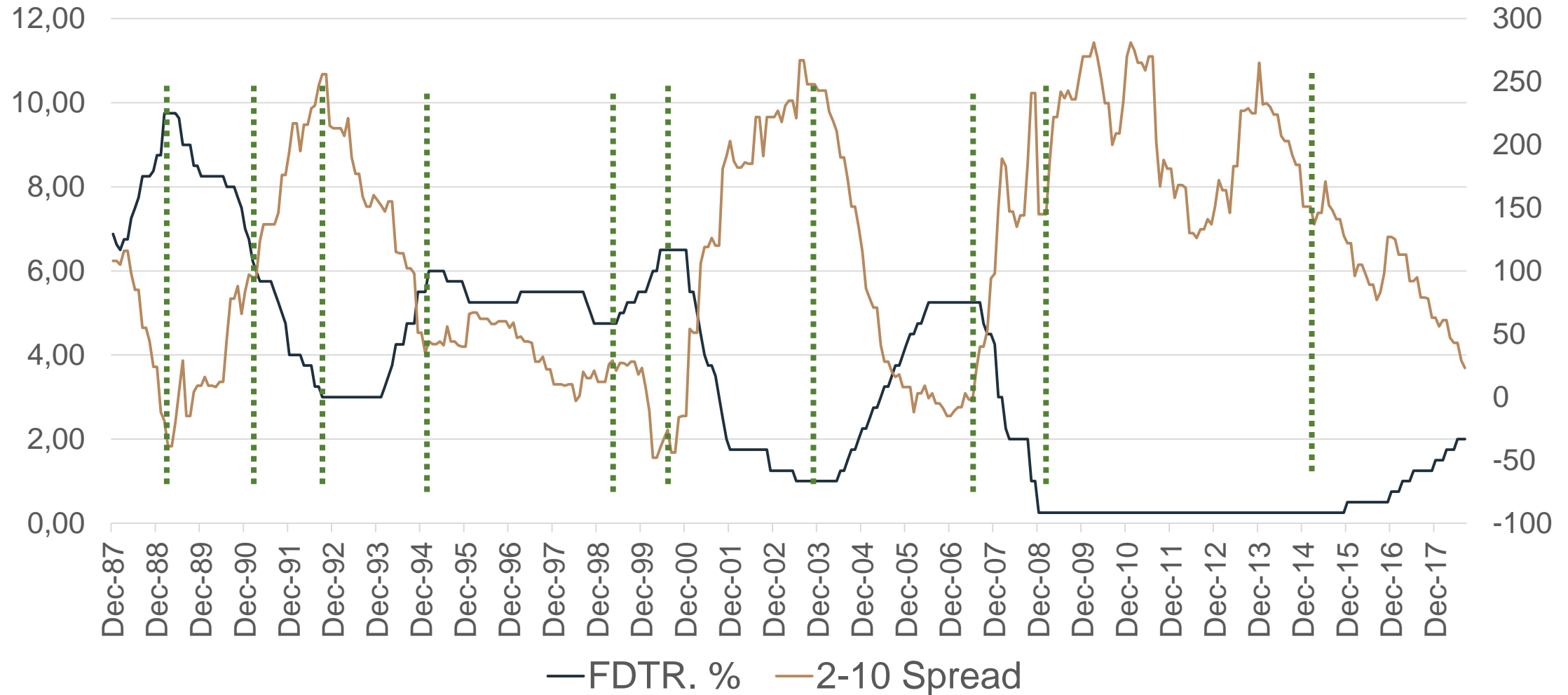
### Close future

Rates up, hard times for equity, long duration suffers the most

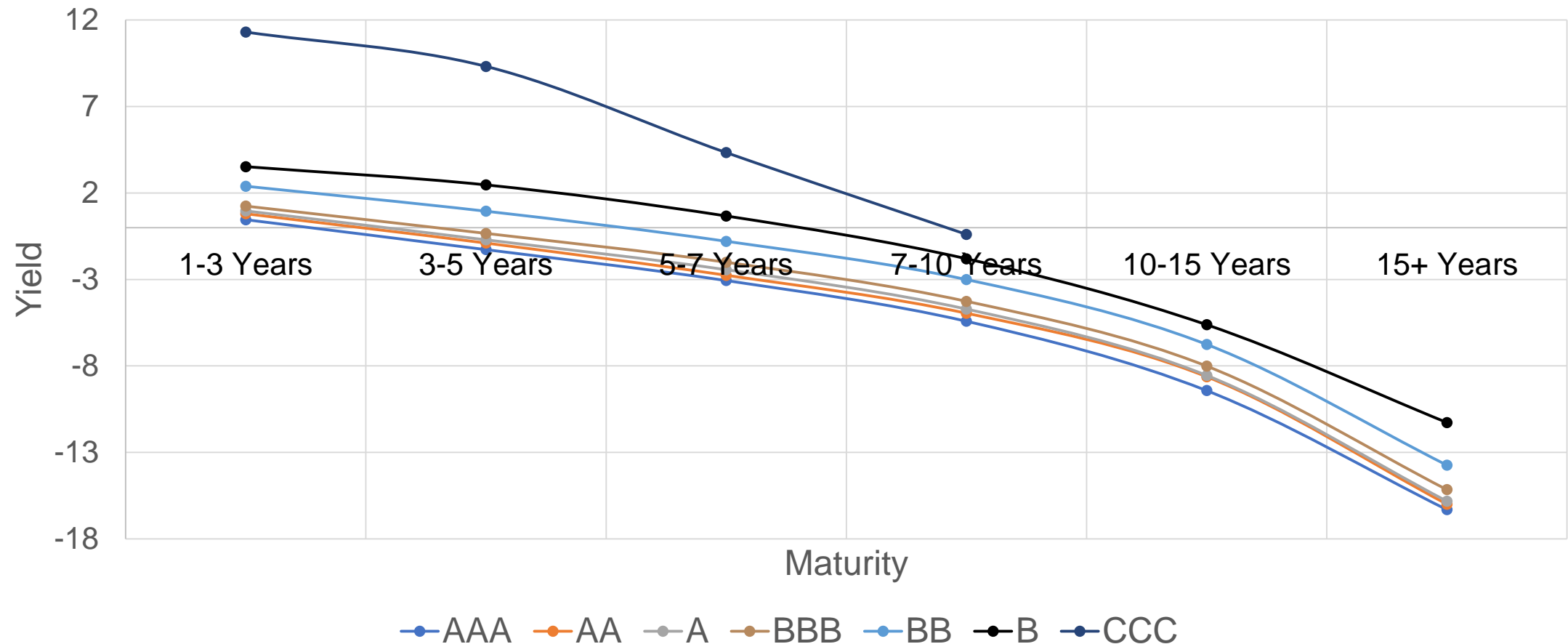
USD Corporate Bonds Yield Curve by Rating Category



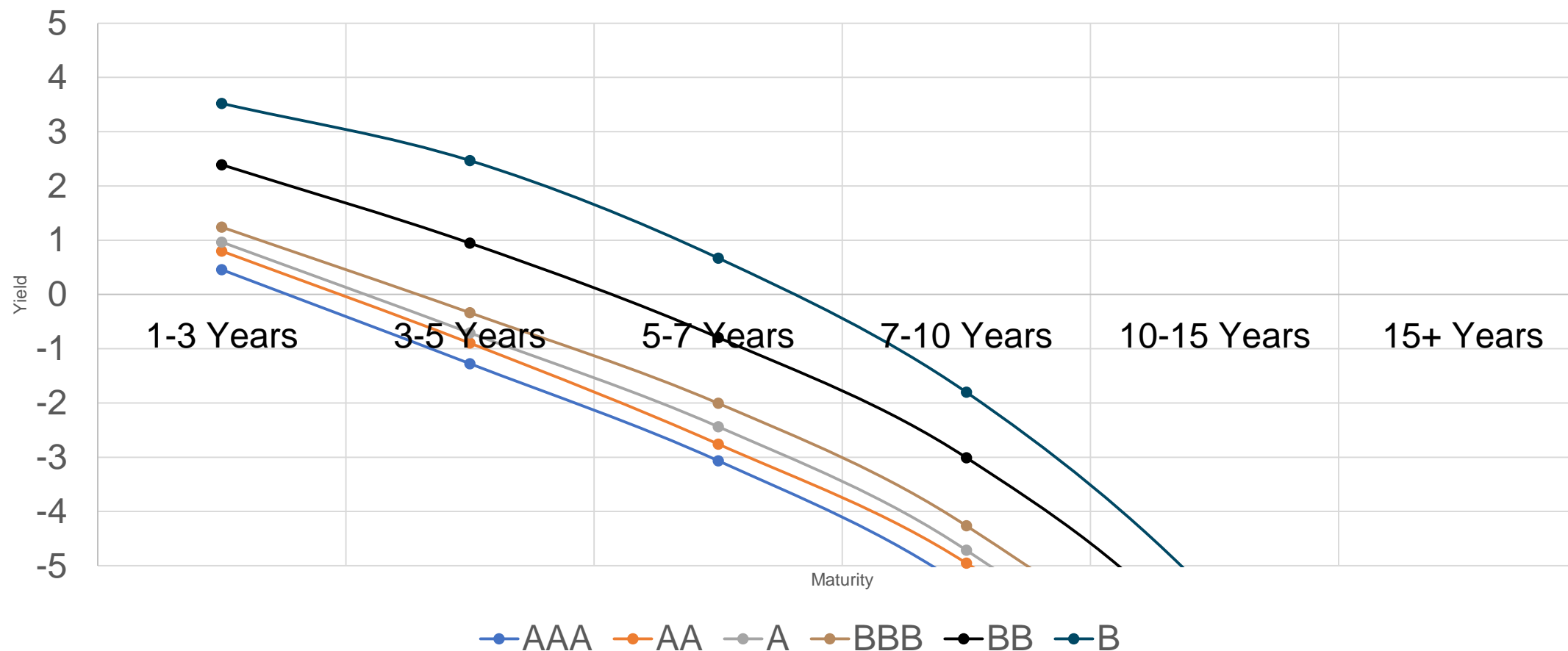
# Rates up – Spreads down



USD Corporate Bonds annual return at 1% positive FED rate change and constant risk premium



## USD Corporate Bonds annual return at 1% positive FED rate change and constant risk premium



1

Equities have been looking better in diagrams and articles – but not for real investors; real investors gained stabler from bonds

2

Lately equities and PE and RE have outperformed – a warning sign

3

In equities area everything (almost) depends on earnings forecasts; though techs and unicorns are overpriced any earnings based

4

The world's changed – no one from us has ever lived in a rate rising cycle with weak growth triggers. We have to assume and predict rather than dig into own memories

5

We are far from the crisis (as much as we can predict) based on risk premiums; though we are not far from the dangerous zone

6

Unless the world nosedives into the crisis, yields will grow and prices of FI instruments will go down steadily or in saltation



4



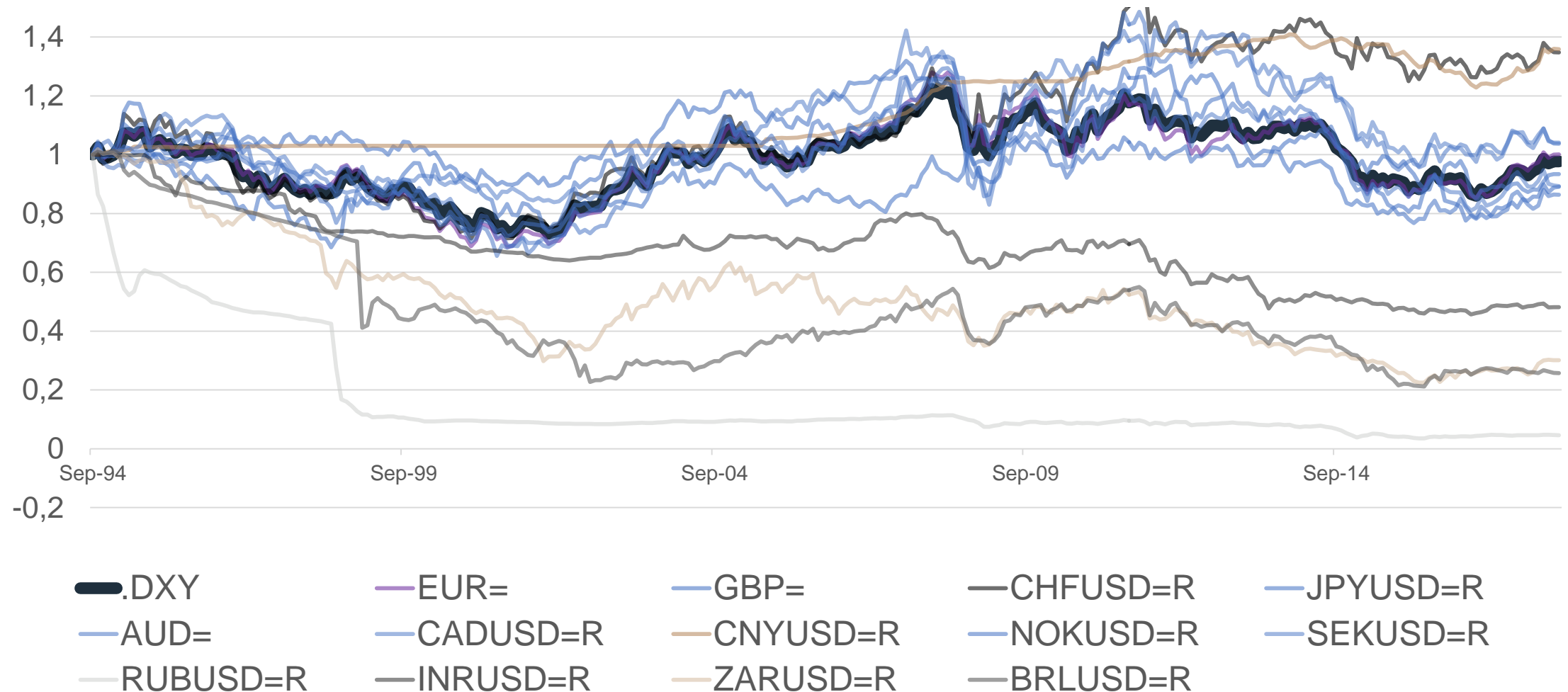
## WHAT TO DO?

# Where to lay low?

In the time of bad markets safe havens will still generate inflation+ returns

# USD is still a no brainer and a phase favorite

major currencies to USD



- When rates grow – stay in short instruments
- When markets are high – get out of equities
- When volatility grows – be globally diversified
- When money is in excess supply – go down in ratings and liquidity
- When world slows down – choose US dollar as a base currency

**GLOBAL, DIVERSIFIED, SHORT DURATION, MID RATING, USD  
HEDGED FIXED INCOME PORTFOLIO**

# FIXED INCOME IN THE TIME OF YIELD RISING

Part 2



## SHORT DURATION CONSERVATIVE STRATEGY OVERVIEW

## GLOBAL, DIVERSIFIED, SHORT DURATION, MID RATING, USD HEDGED FIXED INCOME PORTFOLIO

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- Short duration protects from yield increase effect on prices and unpredictable credit quality shift
- Desired yields lay lower than BBB- rating
- You need to cherry-pick and follow closely each investment – expertise, experience and hands-on approach
- Still returns are limited – inflation +3-5% is the gross target
- Sweeteners could be found in arbitrage fields – though few ones

# “Conservative” is the key to investing

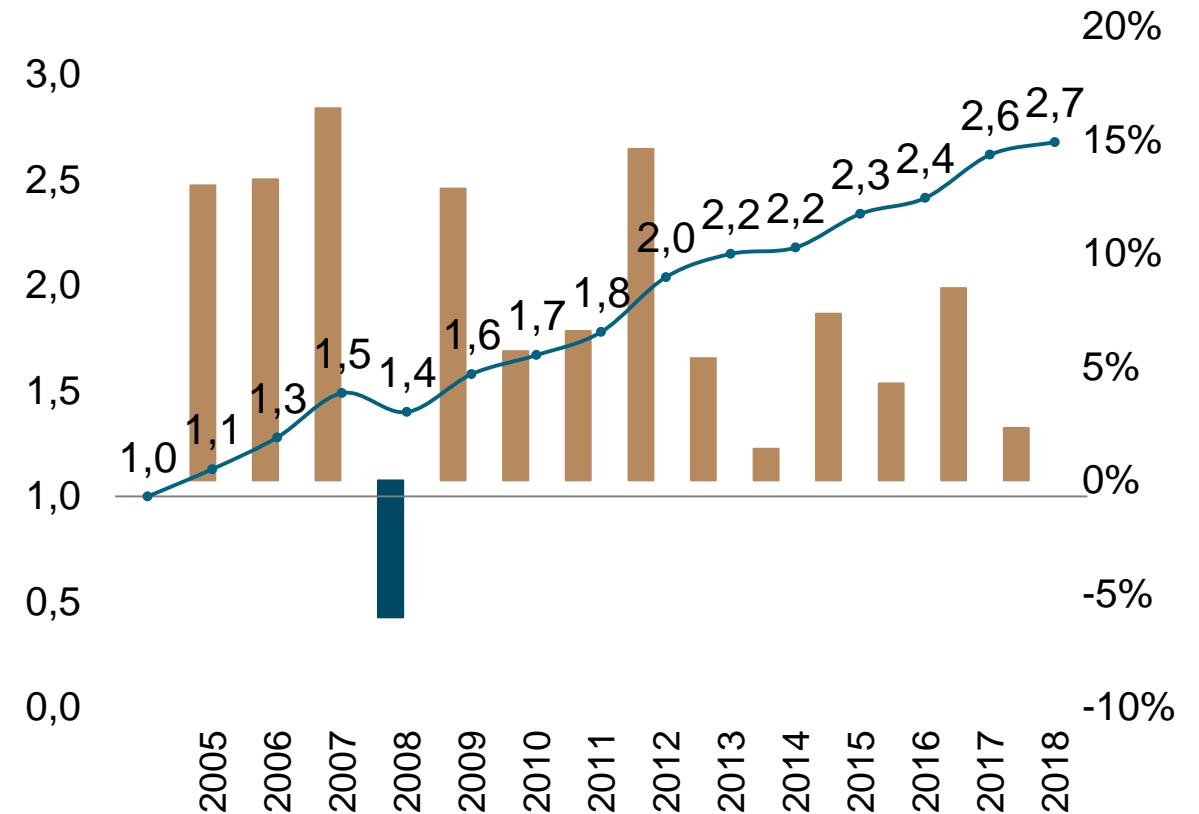
3,85 would bring the NASDAQ

2,42 would bring the DJIA

2,4 would bring the EMBI+

1,66 would bring the RTSI

Even in rates decreasing time  
conservative short-term debt  
actively managed portfolio  
provides for good results with  
low volatility



And steadily after

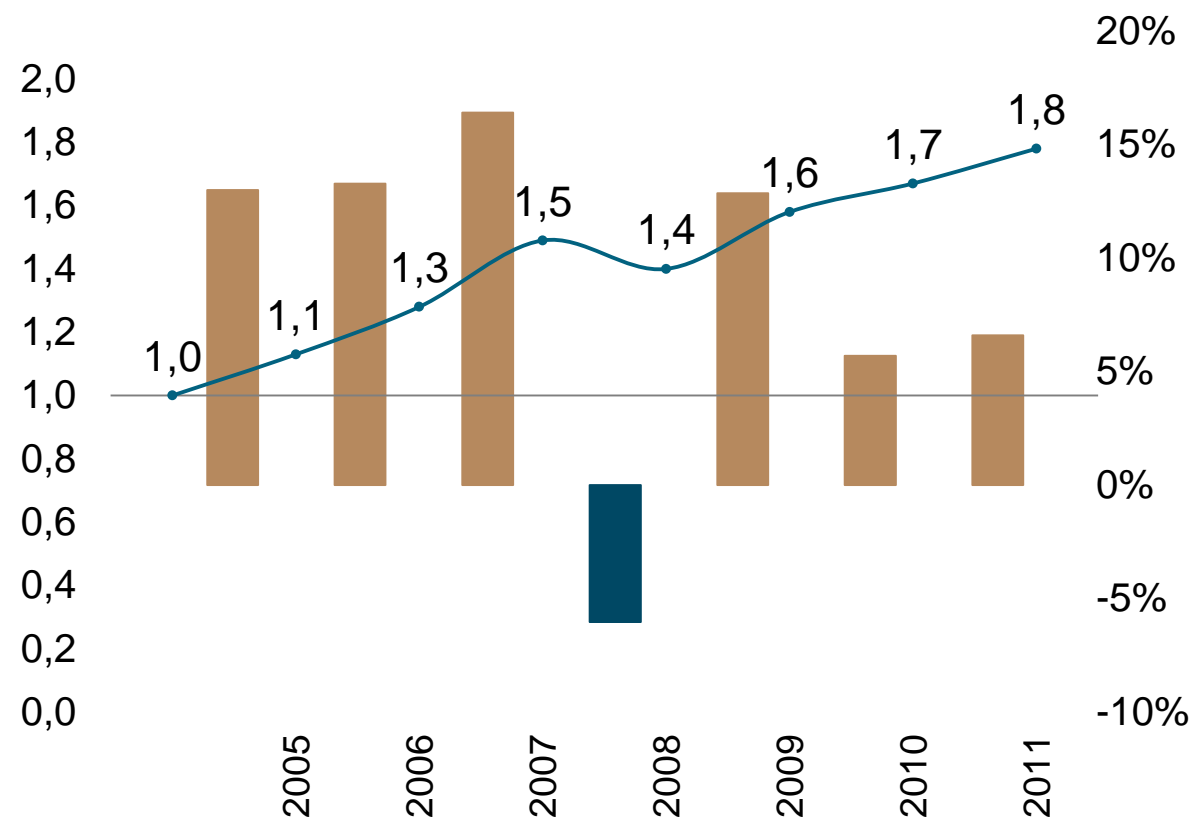
3,05 would bring the RTSI

1,71 would bring the EMBI+

1,46 would bring the NASDAQ

1,19 would bring the DJIA

Broadly over crisis  
conservative investments  
outperform clearly – even  
when 6 years pass



# Especially in bad times

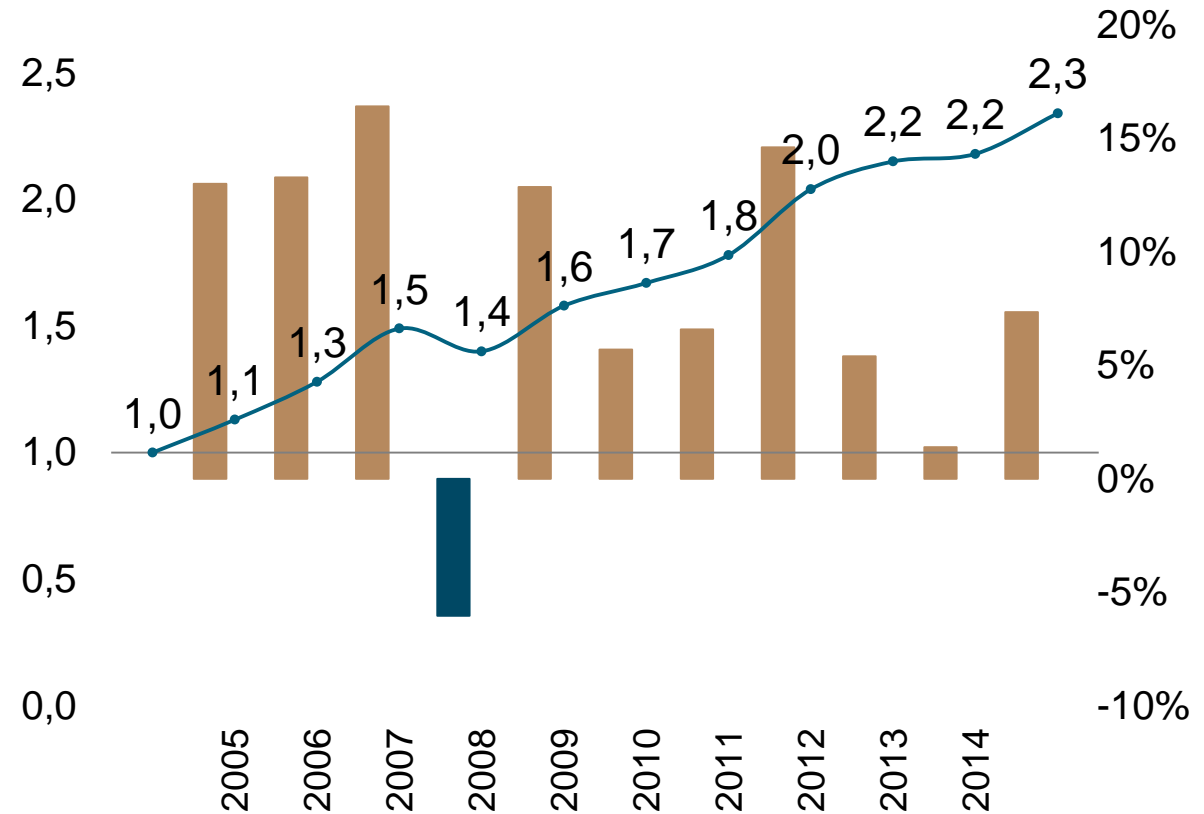
2,62 would bring the NASDAQ

2,16 would bring the EMBI+

1,7 would bring the DJIA

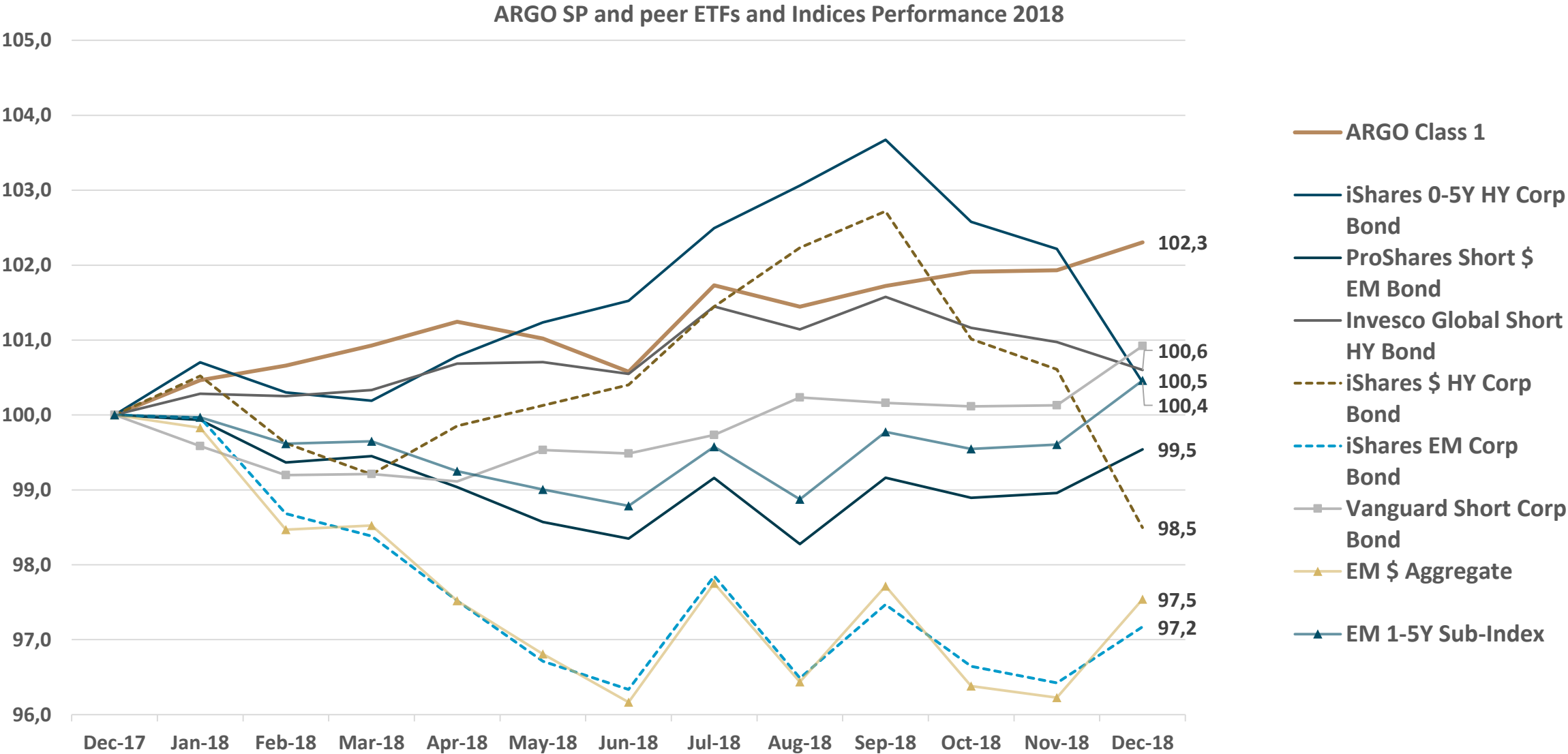
1,34 would bring the RTSI

The move deeper into the period of easy money does not change the comparative position

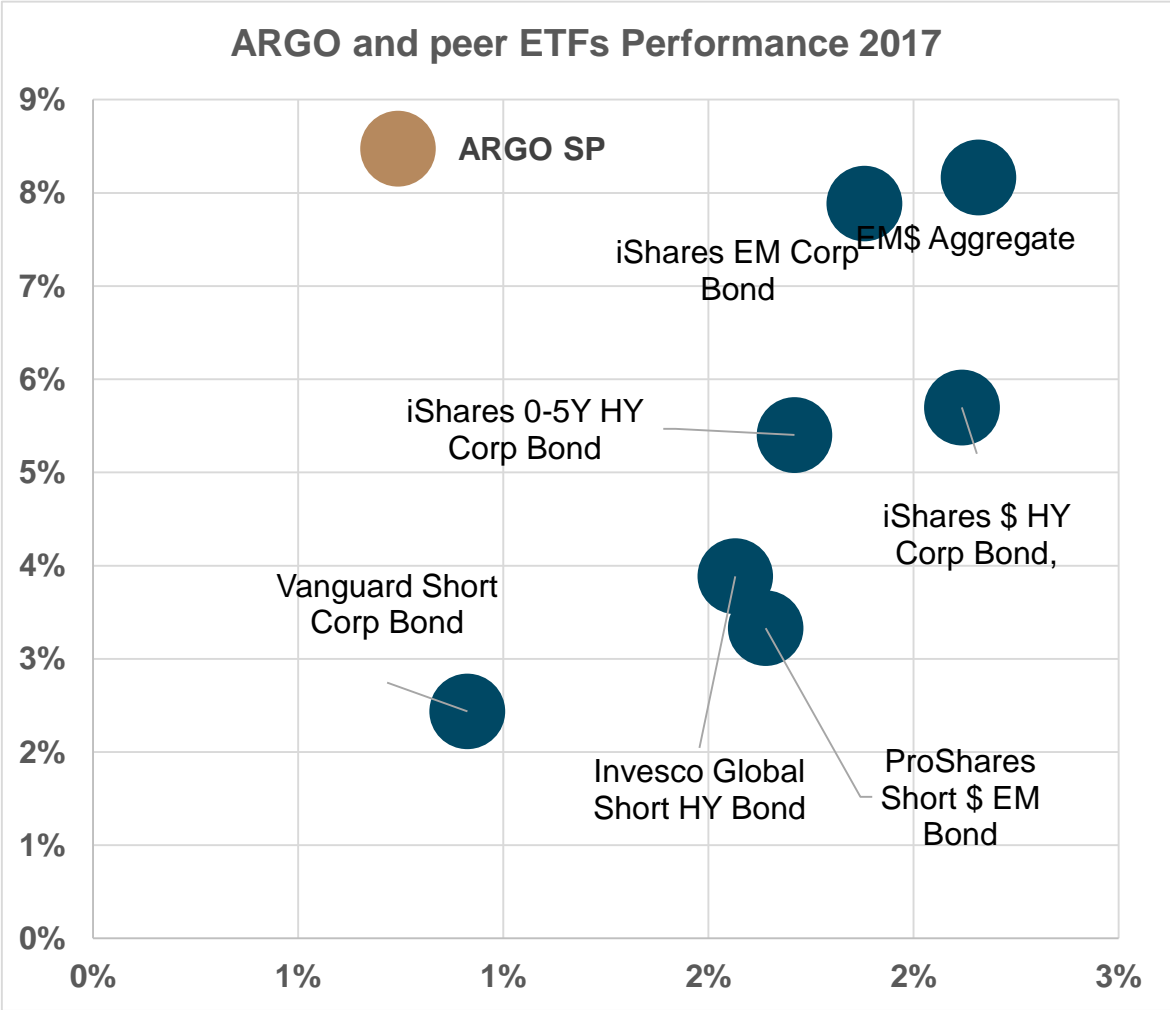




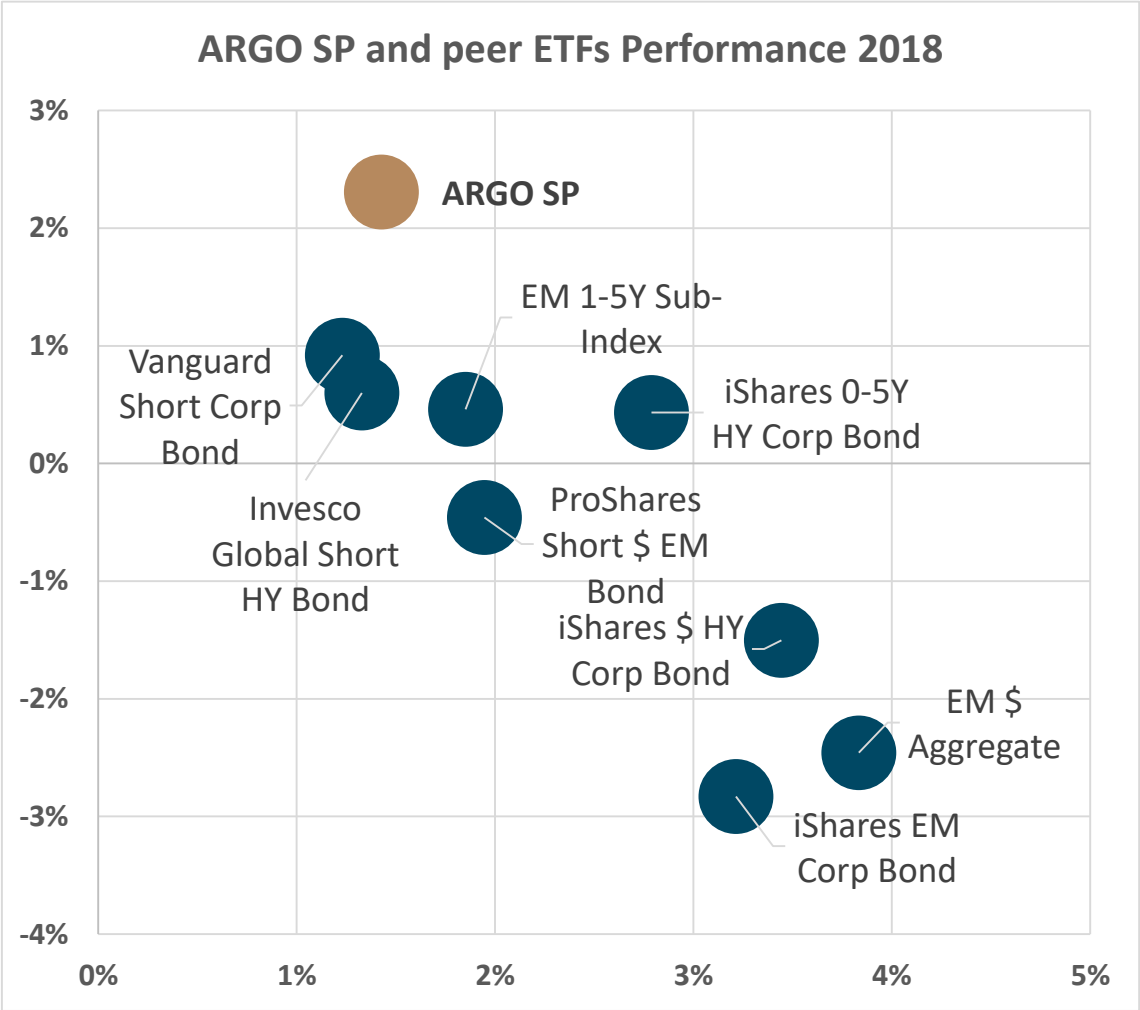
# ARGO vs ETFs and Indices for the 2 last years



Good Year



Bad Year



1

Bottom-up approach  
and deepest analysis; stay  
ahead of the public

2

Diversify

3

Look for smaller,  
younger, “bad” industries,  
lower liquidity (have a good  
broker!)

4

Everything that does  
not kill makes returns better

5

But – if there is a  
bomb, it is likely to explode –  
do not wait

# Data mining consumes much electricity

## Genneia SA

Ticker	3032320Z AR Equity	Rating	Bond	Outlook	Last Updt	Issuer	RT Date	Prev. R
Company Name	Genneia SA	Moody's	B2	Stable	Dec.04,17	B2	Dec.04,17	
Industry	Power Generation	S&P						
Country of Risk	AR	Fitch	B	Stable		B	Jan.04,17	
Website	<a href="http://www.genneia.com.ar">www.genneia.com.ar</a>					Chairman -		
Address	Complejo Olivos Building II Nicol3) 17/32s Repetto 3676 3er Piso Olivos, B1636CTJ					CEO -		
Auditor	DELOITTE		Yrs auditor employed		CFO -			
Description	Genneia S.A. provides alternate energy services. The Company produces electricity primarily through wind and thermal energy sources. Genneia operates in Argentina.							

BBG Default Risk	
Category	HY2
1Y PD	1.54%
2Y PD	3.36%
3Y PD	4.80%
4Y PD	5.87%
5Y PD	6.64%
BBG Implied CDS rate	272.00

CDS Spreads	
Tenor	Mid
1Y	
2Y	
3Y	
4Y	
5Y	
Bond Interpolated CDS Rate	

### Bond

	Name	Type	Market type	Cur	Amount, Mln		M Dur, yrs	Price		Curnt yld	YTM		Rating comp	Call Option		
					Issued	Outst		Bid	Ask		Bid	Ask		Nxt Call	@ Px	Wrst
USP46756AH86	GNNEIA 8.75 'Jan.22	Sr, UnSecd	Euro-Dollar	USD	500.0	500.0	2.8	94.828	95.357	9.2	10.69	10.49	B	Jan.20	104.375	10.49

USP46756AH86	GENNEIA SA
Series	REGS
Coupon	8.75
Coupon Frequency	2
Coupon Type	FIXED
Coupon Type	ISMA-30/360
Min Piece	1,000
Par Amount	1,000

Issuer Emgasud Sa	
Guaranty Type	
Guarantors	
Guaranty Level	
Guarantors List	
Country	Name

Mid Z Spread	742.53
ASW Spread	707.65
ASW Swap Rate	
G Spread	757.89
I Spread	741.58
OAS Spread	759.03
XCCY Z Spread	-
XCCY ASW Spread	-
XCCY Fixed Equiv.	-
XCCY G Spread	-
WACC: Rd	4.4%
Spread to Benchmark	744.13
Initial Spread to Bech	

M.Cap, M USD	
52W Price chg	
MERVAL Index 52W	10.7%
Current Price	
Median Consensus Tar	
52W Dividend yld	
52W Total Return	
YTD Total Return	
52W Volatility	
Beta	
WACC: Re	11.3%

Source	Price	
	Bid	Ask
CBBT	94.499	95.439
BVAL	94.828	95.357
BGN	94.23	95.398

Default Check	N
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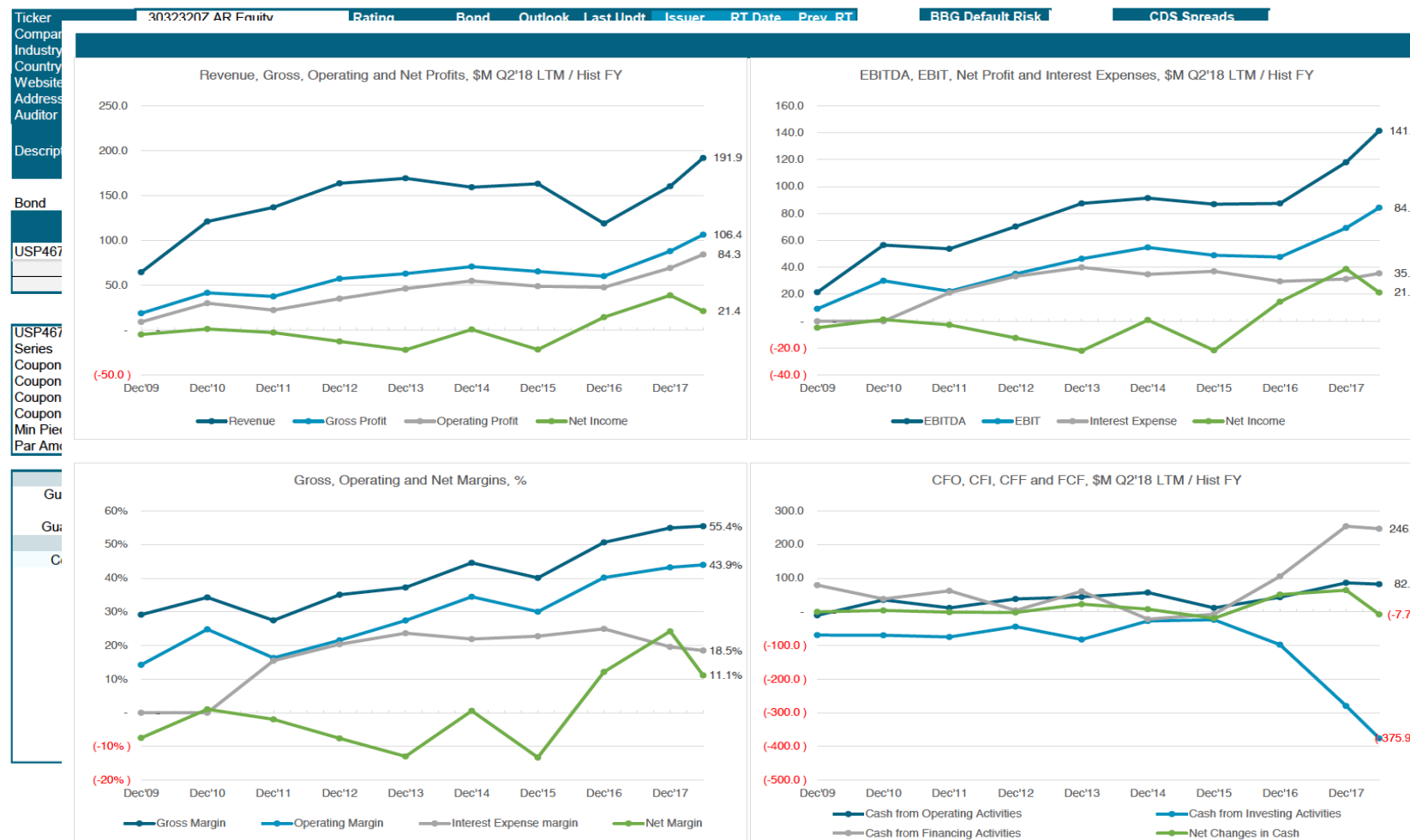
YTM	
Bid	Ask
10.82	10.45
10.69	10.49
10.93	10.47

Call Schedule		
Date	Price	YTC
20 Jan'20	104.38	16.60
20 Jan'21	102.19	12.10

P/E	
Estimate P/E	
10Y PE mov.avg.	
P/BV	
P/FCF	
EV/EBITDA adj.	
EV/EBIT adj.	
EV/Sales	
EV/FCF	
WACC	6.7%
ROIC/WACC	96%

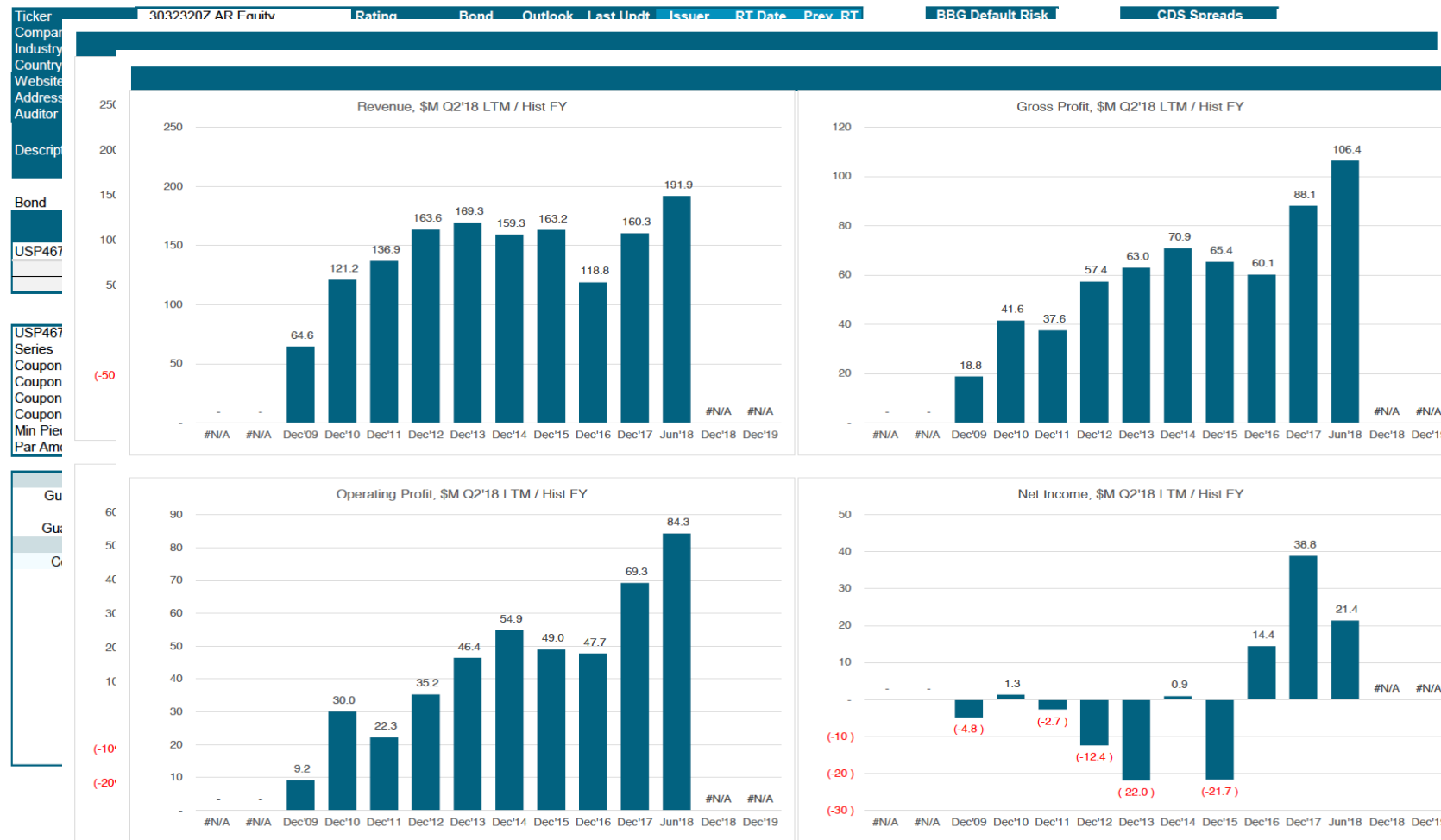
# Data mining consumes much electricity

## Genneia SA



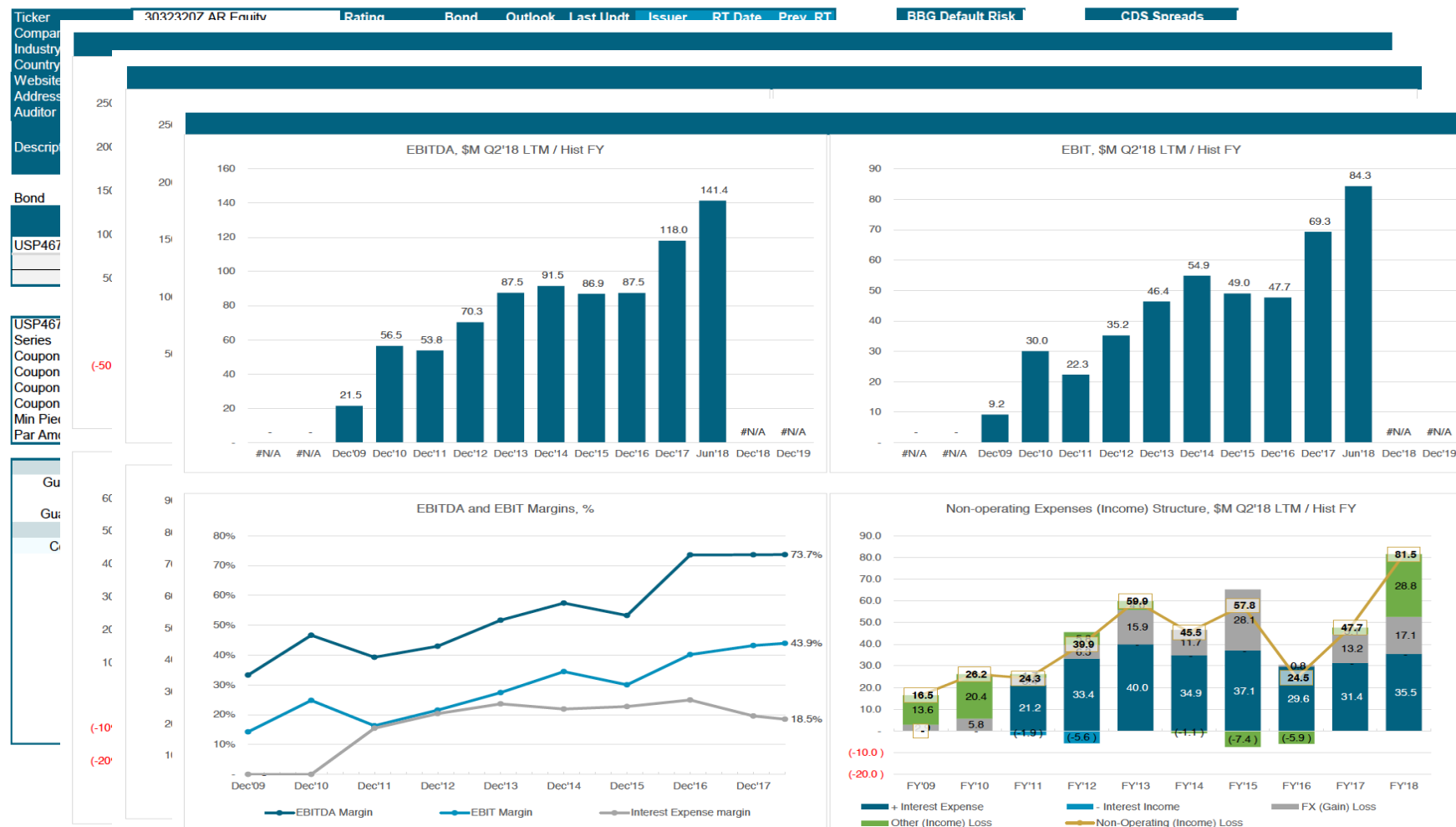
# Data mining consumes much electricity

## Genneia SA



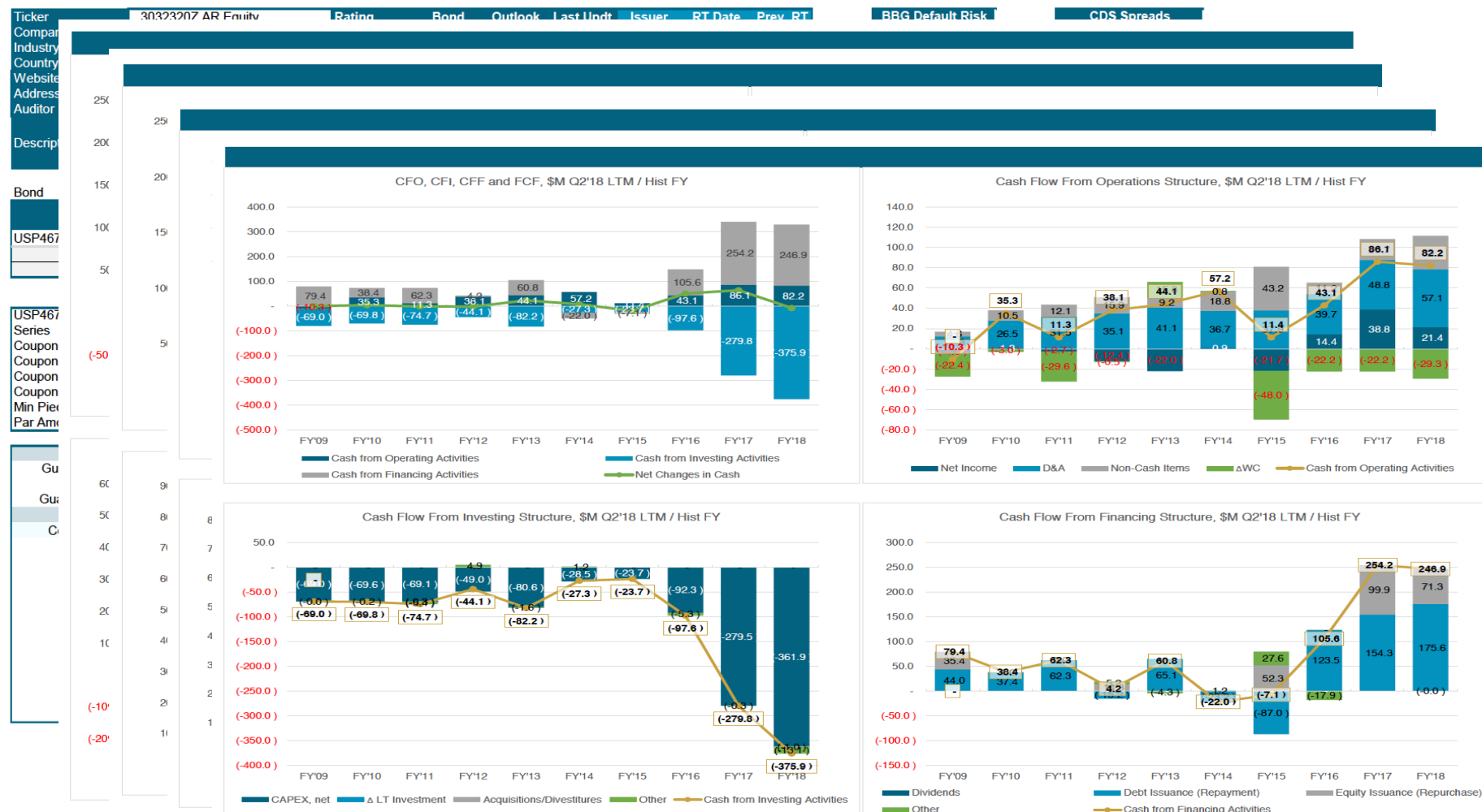
# Data mining consumes much electricity

## Genneia SA



# Data mining consumes much electricity

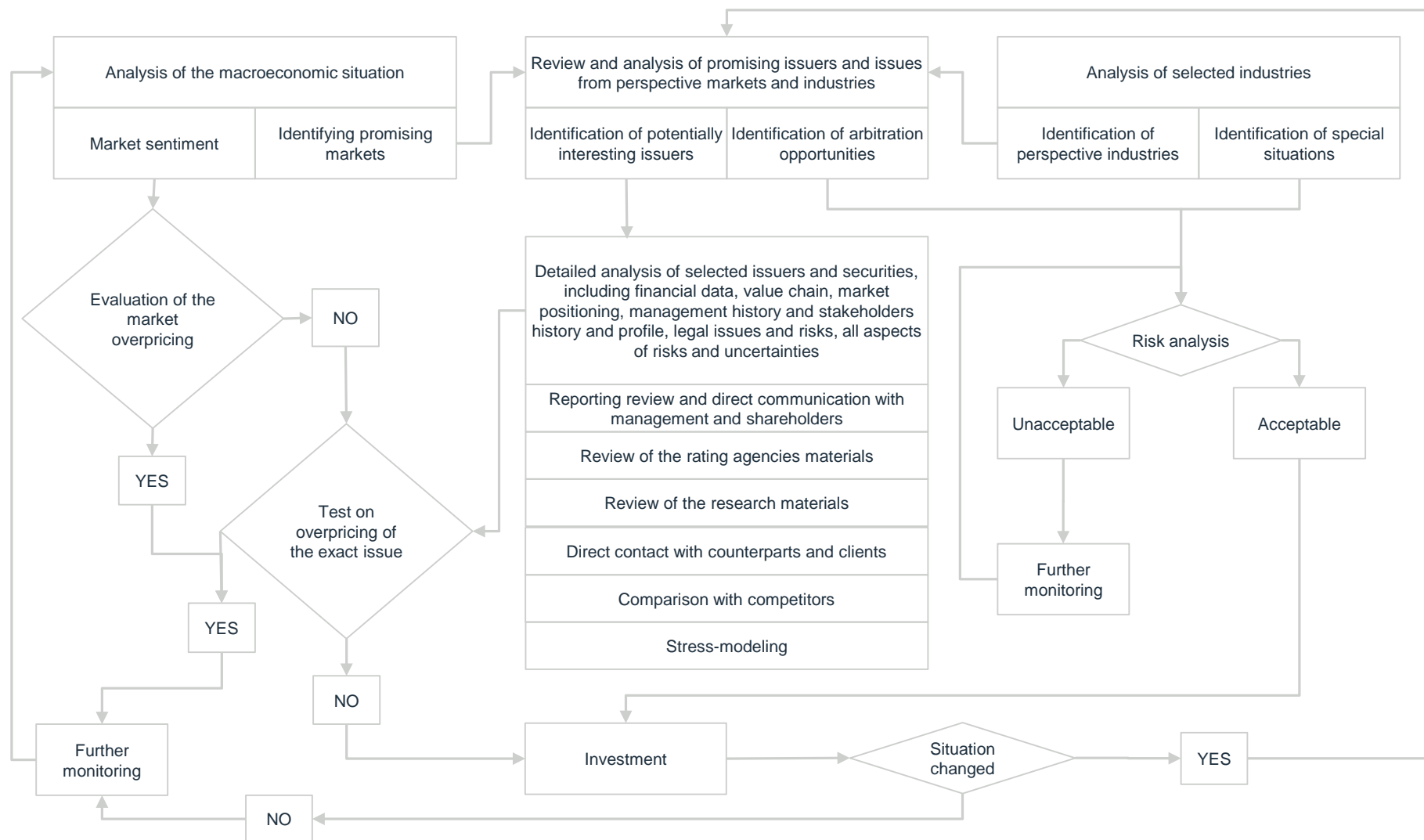
## Genneia SA





- Check the region
- Check the industry
- Talk to management
- Talk to competitors
- Talk to clients/subcontractors
- Talk to regulators
- Review the shareholders history and behavior
- Is there a dependency on a third party  
(scarcity; politics; subsidies)
- Review the history of last shocks
- Chances of M&A
- Chances of adverse idiosyncratic events?





1

We are in the NEW world – though not everyone noticed it: ciao easy money and low rates

2

Solvency was not the major factor when there was so much money around. Now the major question will be “can it pay its debts?”

3

There is still nothing bad in FI – if it is short – our fund is +2,5% YTD vs. EMBI+ -3%

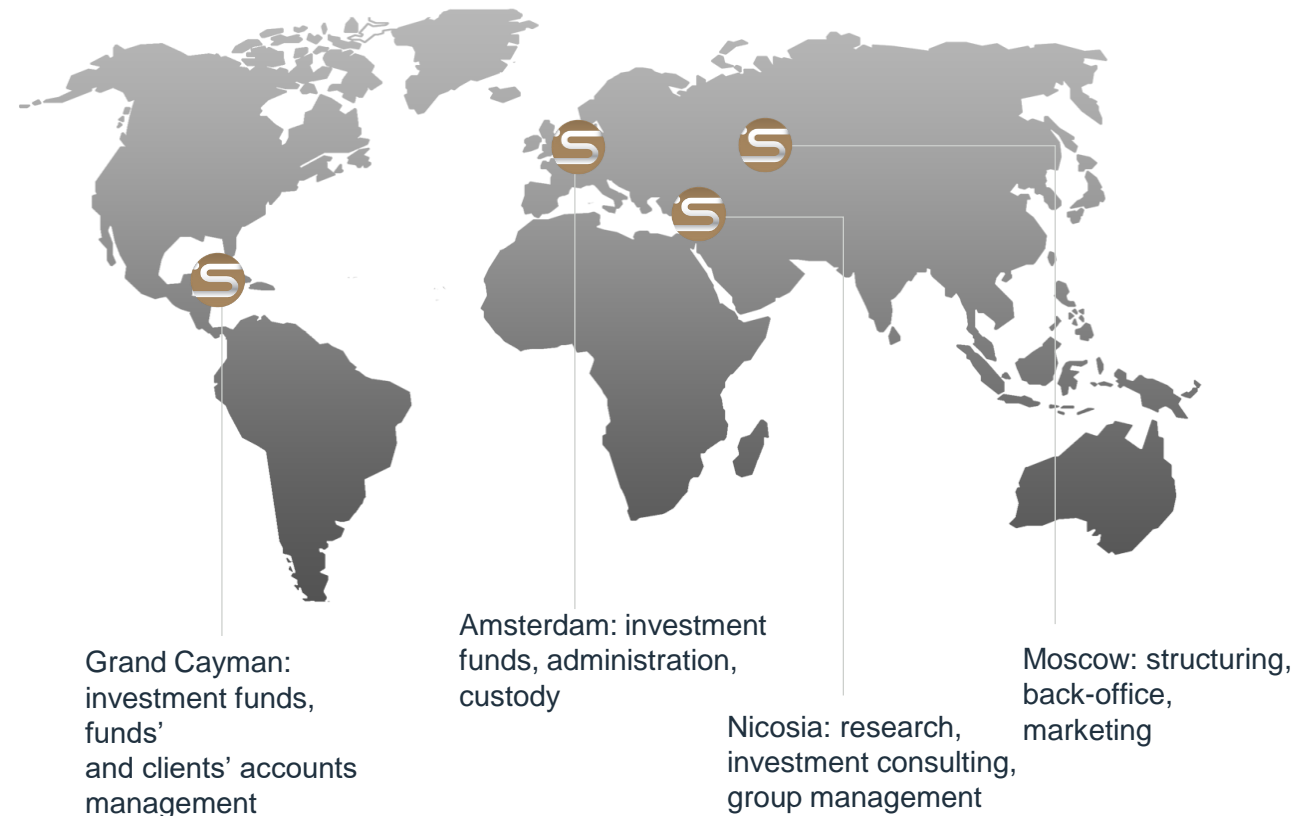
4

Good returns are now much lower than before

5

Once the trend is vanishing, professionals are back in demand – do not try to repeat their tricks yourself

- We offer investment consulting services, advise clients on their current portfolios and strategies, supervise special purpose portfolios composition process
- We provide investment advisory services to a number of international funds dedicated to investments into short-term debt instruments
- We advise on creation and optimization of holding structures and investment vehicles
- We provide external management services for clients' accounts with banks and brokers as per clients' choice



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