

HSBC Global Asset Management

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PRESENTATION

Jason Moshos

Following a challenging 2018, two factors drove robust returns in 2019. Weak global economic trends, geopolitical unrest, and trade tensions ultimately caused U.S. Treasury rates to reverse course and begin to fall, which positively impacted fixed income portfolios. At the same time, credit spreads for much of the U.S. investment-grade market have trended tighter over the course of the year, meaning the cost of borrowing for high quality corporate issuers now began to decline, fully reversing the 2018 trend. This is a positive for fixed income investors holding corporate credit.

The decline in rates ultimately saw front-end rates out-yielding that of longer-dated maturities, known in the market as an “inverted yield curve”. The Federal Reserve reacted in the second half of 2019 by reducing front-end rates by three-quarters of one percent. These rate cuts have had the desired effect and managed to reshape the yield curve, creating a modest positive slope. In layman’s terms, you now get paid more to invest in longer maturity assets.

Looking in 2020, continued market volatility is expected to be driven by the U.S. presidential election, ongoing trade tensions, Brexit, global economic data, and geopolitical flashpoints. That said, we expect U.S. interest rates to be less of a driving factor. The current market bias is toward further modest reductions in front-end interest rates, increasing the benefit of longer-dated investments.

We will look to our global credit capability through the use of fundamental credit and ESG analysis to drive yield opportunities, particularly during times of market dislocation, and stay alert for changing economic fundamentals. These dynamics should provide the platform for short duration fixed income to continue the longer-term trend of outperformance versus money funds.