Positioning in fixed income: Patience or pivot

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I think investors have two choices. They can play a more patient role, which is waiting for full clarity that the Fed is done with its inflation fight and will no longer raise interest rates. I think investors in that camp are benefiting – can benefit – from focusing on short investment-grade securities. So short maturity -- 1 to 5 year, for example – investment-grade bonds where they can earn yields in the 6% area.

I think the other opportunity is for those investors who realized the price volatility and price declines have been historic and often after strong price declines can actually come strong price gains. And if you want to play for that pivot, I think investors can find tremendous opportunities in agency mortgage-backed securities, which trade at deep discounts relative to the par value investors will ultimately receive. Or even in the investment-grade market, where many bonds are trading at 60 or 70 cents on the dollar and investors can really benefit from price appreciation as part of that return equation. In addition to income, once that pivot does come.

You certainly can see changes happen very quickly. We've seen that happen in both directions when central banks indicate a change in policy is coming. We can see returns move by several percentage points in a period of weeks. And I think that's something that investors need to be very mindful of as they think about being, frankly, too defensive in this environment.
