



2021 fixed income outlook

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Your success. Our priority.

Prices are pretty elevated. Interest rates are low, and the margin for error is much smaller.

In 2021 we think the primary driver of outperformance will be credit selection. Credit selection is important for two reasons. First, it helps us take advantage of opportunities in bonds that are cheap relative to others, but more importantly, it's also a lever for downside protection. In 2021, in a low-yield and low-credit-spread environment, we think downside protection will be an important driver of outperformance.

There does not appear to be a single sector of the market that stands out as incredibly cheap. We would advocate a diversified portfolio mix between corporate bonds, structured products like mortgage backed securities, and international securities, including emerging markets.

We think the U.S. provides a slightly more attractive opportunity in fixed income, largely due to the higher level of interest rates in the United States and a slightly higher level of credit risk premia in areas like corporate bonds. However, I think it's important to recognize that the policy response to the pandemic has been equally aggressive in several areas, and as we see the economy recover, we think opportunities in Europe, particularly in the corporate bond market in Europe, can be interesting in 2021.

There's a lot to be optimistic about, particularly coming out of a difficult year like 2020. Investors are very optimistic about growth on the back of a vaccine and the pent-up demand that comes from all of the things that consumers and businesses were unable to purchase or invest in, in the pandemic year of 2020. Now markets reflect a lot of that optimism already, and it could be that the recovery could be a bit slower, or more importantly, that some of the changes that we've adapted our lifestyles to may actually be somewhat permanent. So, I think investors need to take into consideration and carefully analyze where some of the pandemic-related adjustments to our lifestyles and our business operations may be more permanent than just temporary related to the pandemic.

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