How can global fixed-income investors embrace interest-rate risk?

So we do think over the course of 2024 that interest rates are going to fall across most geographies. We have to think about how we embrace interest rate risk within the portfolio. Within this, we think that you're in a scenario where not necessarily is all duration created equal, but are going to be different areas of the landscape where while most central banks, their next move is going to be a rate cut, you are going to start to see some divergence in terms of the timing, the pace or the ultimate direction in terms of ending point for those rate cuts.

And so for us, as a as a global manager, we think about not just overall interest rate exposure at the broader portfolio level, but we also have to think about managing duration across a couple of different multi dimensional facets. The first would be what we would consider contribution to duration. That is, where is that duration risk coming from within the portfolio.

Thinking about our global opportunity set, we have the flexibility in the mandate where we can seek to embrace interest rate risk in areas that we like. For us right now, that's parts of the world like Australia, New Zealand, the eurozone and the US. And we also have the ability to avoid areas where interest rate risk is not as favorable for us right now. That's areas like Japan. Given the Bank of Japan expected to hike rates and areas like China, just given that we don't anticipate yields move much lower.

In addition to thinking about interest rate risk from a geographic perspective, we also have to think about what we would consider to be key rate duration risk. That is where on the yield curves are we taking exposure to interest rate risk. And so for us, you know, one of the big topics in fixed income over the last couple of years has been the inversion of yield curves and an expectation that at some point, sure, yield curves will normalize again.

From our perspective, though, that may take some time. And when we think about the potential normalization of yield curves, we think that's likely to happen in an environment where overall yields are moving lower. And so as a result, we're expressing our exposure in terms of key rate, more so in the belly of the curve, as opposed to strictly embracing the front end and looking simply for a normalization of the curve and of course, steeper, we think you get more bang for the buck, if you will, in terms of taking some interest rate exposure a little bit further out the curve.

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