Manulife Investment Management

How does currency generate value in a global fixed-income strategy?

Currency exposure to a global fixed income strategy - it's an important driver of diversification, but it also can be a driver of return.

If we look at an example of the return from currency recently in 2023, let's take a look at the Mexican peso. Peso versus the US dollar had a really strong 2023 in terms of total return over the course of the year. It wasn't a one way trade. There was some volatility over the course of that year. And in fact, at one point in time during the year, the currency actually sold off about 10% from its strongest point. But over the course of the full calendar year, the peso benefited from attractive real yields. Comparatively, it benefited from things like the reshoring.

As companies moved away from China, there was a lot of interest domestically in terms of onshore. Mexican business benefited comparatively from reasonable political stability as well as a good fiscal scenario coming out of the pandemic. So all drivers of max peso strength. But as I mentioned, it was a volatile period over the course of the year.

From our perspective, we actively managed our currency exposure there. And this was, of course, arranging from between, essentially fully hedged to essentially fully unhedged over the course of the year. And so when we look at the outcome for 2023, when it comes to our position, looking at the return in terms of Mexican bonds, the largest driver wasn't necessarily the return of the price of the bonds, nor was it the interest income earned. It actually was the currency exposure that was managed over the course of the year.

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