WHAT'S IN STORE FOR **CREDIT INVESTORS?**

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The financial markets have shown a willingness to question central bank messaging locally over the last few weeks around expectations of how long interest rates can remain at these record low levels.

The reality has hit that yield curves have steepened, and this has coincided with some central banks globally having already switched off quantitative easing programs or having even commenced rate rises in some countries.

Whilst the inflationary discussion has substantially ramped up following the recent updates in Australia and New Zealand, it will remain fluid as more time is needed before we really know the volume of those transitory vs more permanent contributors.

What we do know, is that longer term bond yields have already moved substantially, and this is not surprising given markets move early to price in changes in their expectations.

For private investors that invest in credit exposures, they are commonly seeking defensive yield characteristics with a reasonably low level of price volatility.

As interest rates were falling particularly from 2015 through to 2020, many private investors chased credit assets down the yield spectrum as their return expectations were consistently lowered.

In many cases, little consideration had to be given around the duration exposure of the underlying asset or pool of assets, and those that took longer duration credit exposures which had greater price sensitivity to changes in long term yields, were often surprised at the strength of their return outcomes relative to their lowered return expectations.

The next chapter of credit investing in this environment where yield curves are likely to continue to shift upward is going to require a greater understanding of the underlying asset or pool of asset's duration exposure.

This is required to understand the sensitivity in the value of the investment relative to changes in underlying yields.

For private investors, including SMSF investors, this can often be a difficult exercise as they attempt to deeply understand how their credit exposures are going to perform when yield curves keep changing.

Having predominantly short duration credit assets simplifies this discussion and can remove an element of price volatility for private investors and SMSF trustees.

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At iPartners, the majority of the credit exposures within our managed funds and held directly by our investors have short duration profiles. This decreases the price sensitivity of the assets to changes in underlying longer term bond yields.

Some of our assets even have floating rate exposures that will improve in their return outcomes when rates do inevitably rise. This shorter duration focus also makes assessing the underlying risk and reward of individual investments transparent for our investors.

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