Trends 2024

How to most successfully diversify a portfolio
for high-net-worth investors

Diversification

The spreading of investments across different asset classes, industries, and geographical regions to reduce the impact of any single investment's performance on the overall portfolio.

Warren Buffet

“Diversification is protection against ignorance”

Jeff Yass

“Diversification is beneficial even if it reduces your return. Why? Because it reduces your risk even more”

Bond diversification

- Types of bonds
- Duration and maturity
- Credit quality
- Sector and industry exposure
- Tax considerations
- Geographic diversification
- Reinvestment risk
- Inflation-protected bonds

Types of bonds
Unique characteristics influencing their risk and return profile.

- Sovereign and Supranational – for safety. Different jurisdictions can also offer diversification benefits as regards the exposure to various interest rate environments.
- Corporate - benefit from the performance of sectors such as technology, healthcare etc.
- Green bonds - to fund environmentally friendly projects like renewable energy or pollution reduction
- Emerging market (growth potential, higher yield)
- Municipal (tax reasons, interest earned is frequently exempt from federal and sometimes state and local taxes)
- Bond ETFs – diversified investment, lower investment threshold than individual bonds

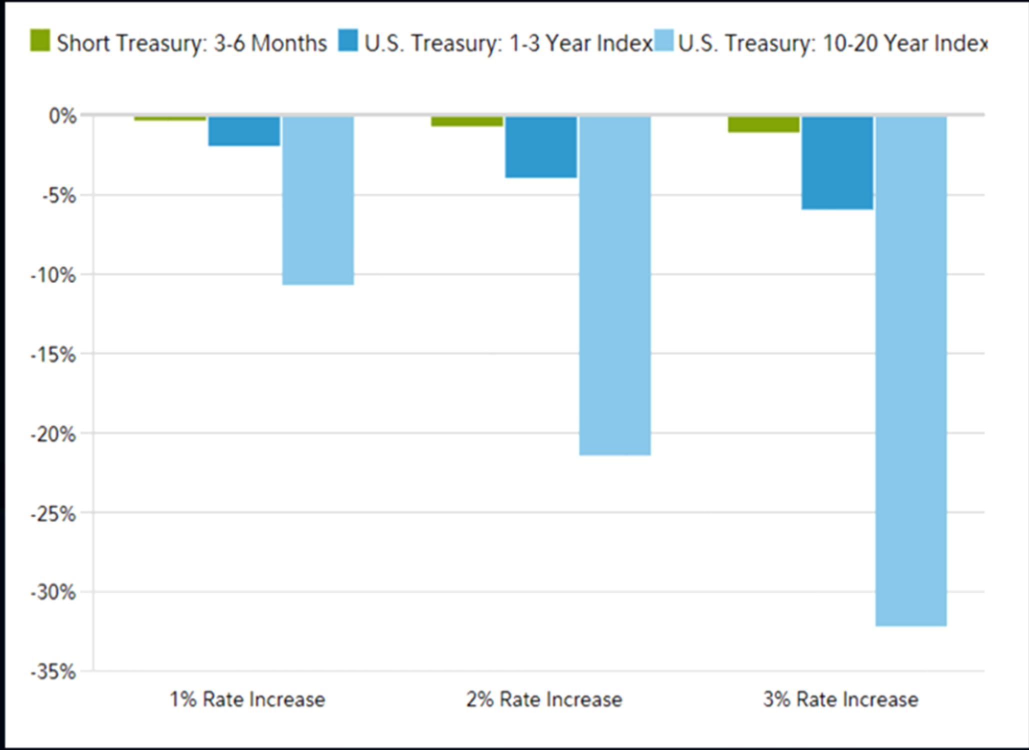
Duration and maturity

- Duration – measures the sensitivity of a bond's price to interest rate changes. Interest rates and bond prices move in opposite directions. The longer the duration, the higher the bond's sensitivity to interest rate changes
- Maturity – the length of time until the principal is paid back
- Use laddering – staggering the maturity dates (short-medium-long term). A laddered portfolio will allow investors take advantage of potential higher interest rates (re-invest matured bonds in higher interest rates)

Short vs Long

- Short term bonds have held their value better as interest rates rose
- Invest in short term to decrease the sensitivity of interest rate changes
- Inflation is expected to decline, as well as the interest rates.
- Time to invest in a high duration portfolio…

Short-term TBs' resilience to interest rate changes

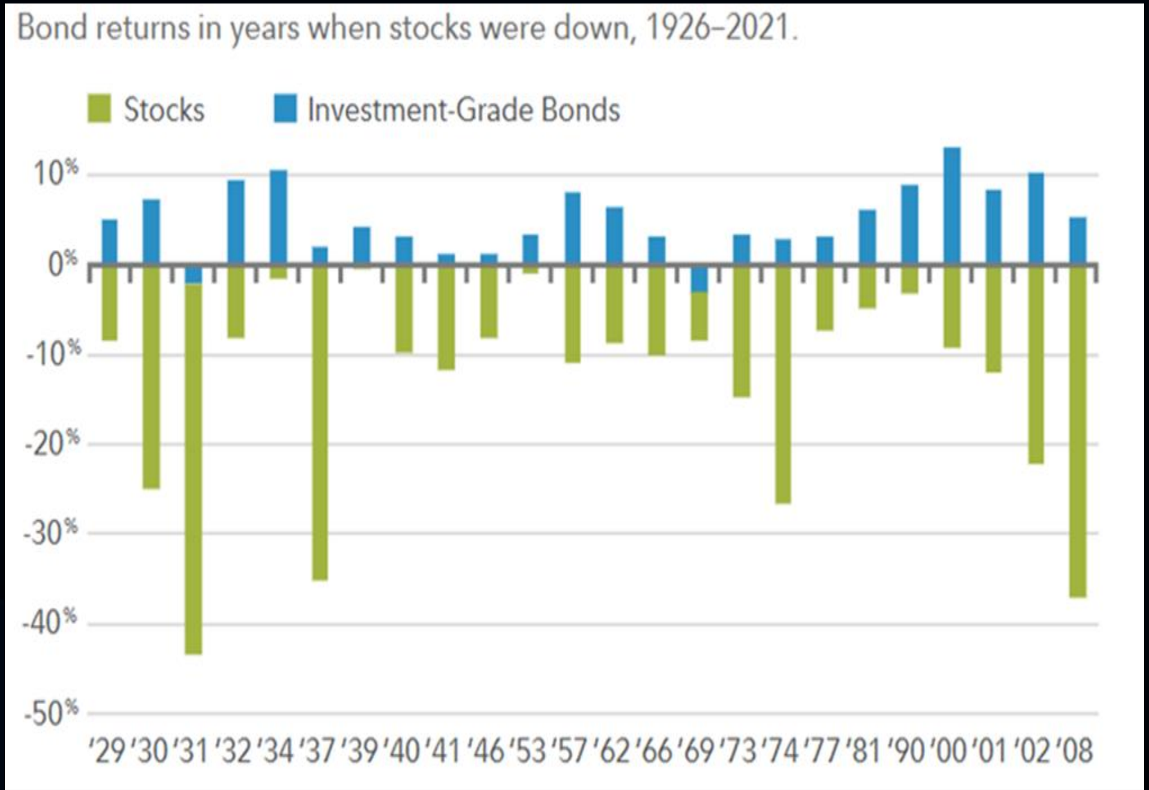


Source: Fidelity Investments

Credit quality

- Investment-grade: less risky, lower yields. Provide stability and reduced credit risk. Serve as a core portion of high-net-worth investors' fixed income allocation.
- High-yield bonds - higher risk ,higher returns. Wise choice in bond-favourable times, for higher income potential.
- Diversifying across different industries within the high-yield bond space can help manage sector-specific risk while potentially capturing the yield opportunities associated with these bonds.

Carefully assess credit risk and economic conditions when including high-yield in a portfolio.



Source: Morrningstar, Fidelity Investments

Sector and industry exposure

- The ongoing changes in the macroeconomic outlook can affect the different sectors and issuers in many ways. Certain industries may benefit from the rising price of oil, others may face difficult times.
- Financial sector bonds may be affected by the changes in interest rates.

Tax considerations

- Investors may consider the investment in bonds which may offer **tax advantage**, such as municipal bonds. Apart from providing diversification, these bonds can potentially reduce the investor's overall tax liability.
- Municipal bonds have outperformed taxable bonds by 50% of the time over the last 15 years (Bloomberg)
- Be fully aware of the CGT applied in each EU country

Geographic diversification

- Global diversification can reduce the impact of regional economic downturns or political events (geopolitical risks) on a bond portfolio.
- Different interest rate environments and currency movement, which can provide currency diversification benefits, potentially reducing the impact of currency fluctuations on the overall portfolio.

Re-investment risk

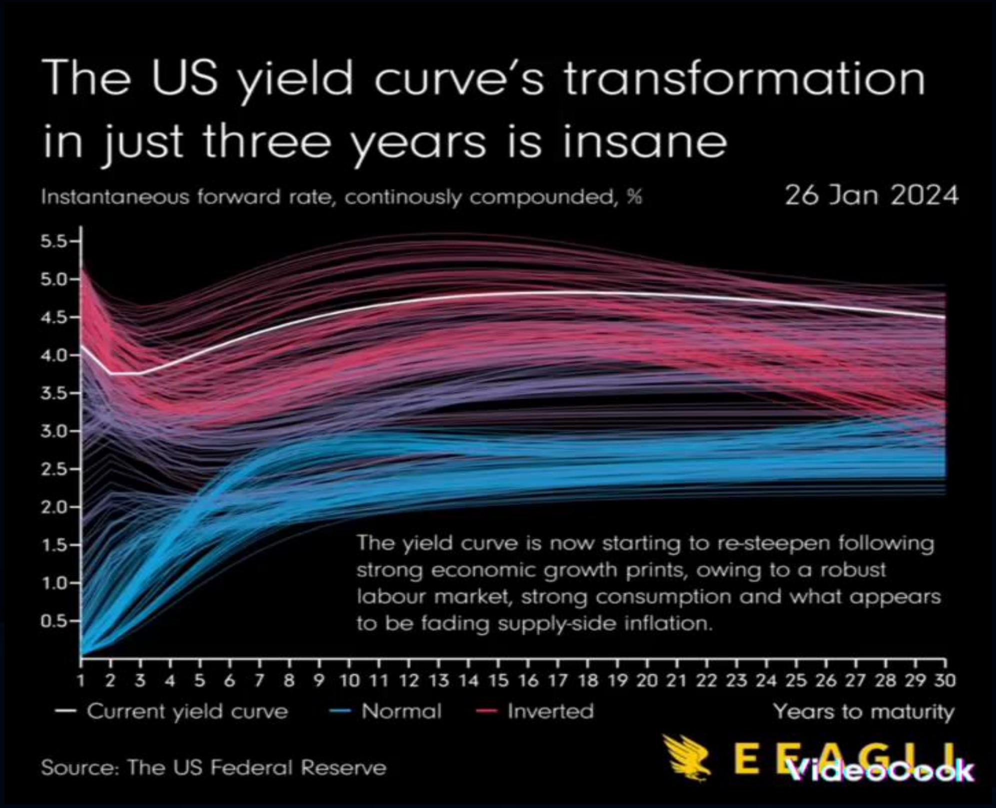
- When a bond matures or is called, investors may need to reinvest the proceeds at prevailing interest rates, which may be higher or lower than the rate of the original bond. Diversifying across bonds with different maturities can help manage reinvestment risk by spreading out the timing and impact of reinvesting proceeds.

Inflation-protected bonds

- Can help protect purchasing power in the face of inflation. Diversifying across different maturities and issuers of such bonds can provide inflation protection while diversifying interest rate and credit risks.

Yield Curve positioning

- The relationship between bond yields and their maturities.
- Understand the signals embedded in the yield curve, such as the expectations for any change in interest rates or on the economy. By investing in various maturities, investors can manage their interest rate risk.
- A flattening or inverted yield curve is a red flag for economic weakness (lower growth, higher inflation, higher interest rates)



Thanks to James Eagle

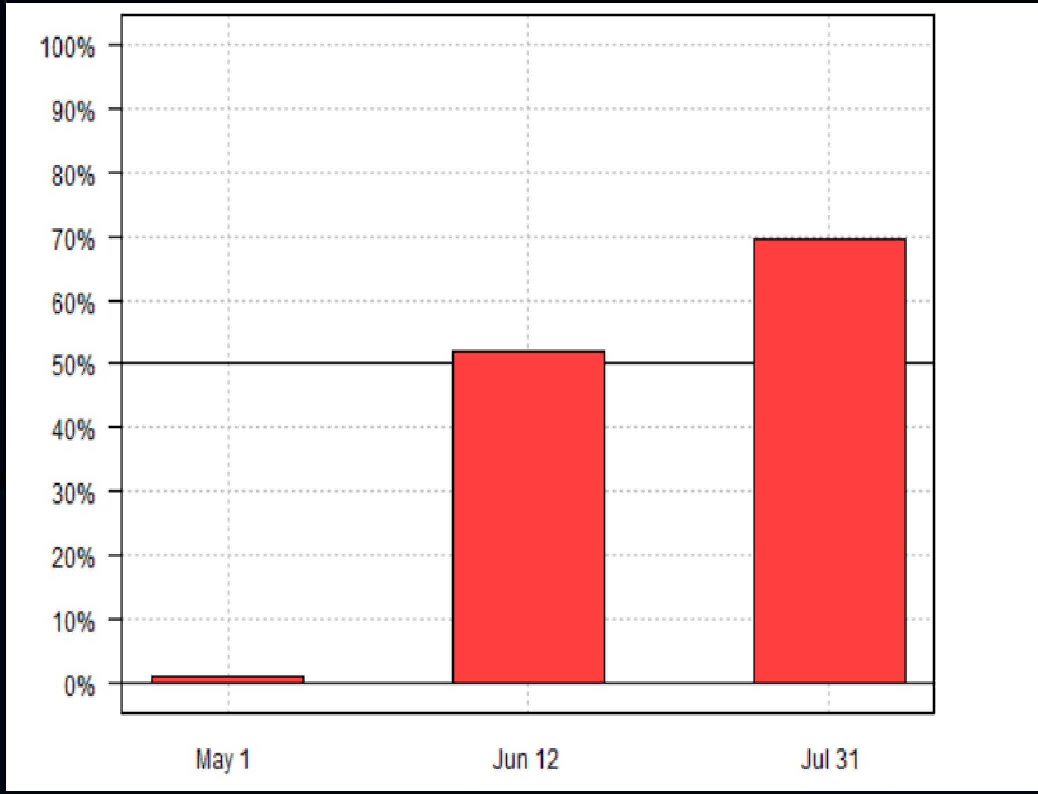
Achievement of diversification based on the trends for 2024

- Intermediate duration
- Green energy
- Digital transformation
- Healthcare
- Global infrastructure
- Financial services
- Emerging markets
- Agency and non-agency securitized bonds

Intermediate duration

- Indications/expectations for central bank rate cuts
- Expectations that the Federal Reserve will still cut interest rates by the end of the year, despite strong economic data and the rise in energy prices.
- Intermediate/longer duration is now attractive (considering rate cut expectations)
- Significant opportunity for good-quality fixed income papers to generate attractive returns

Fed interest rate cut expectations

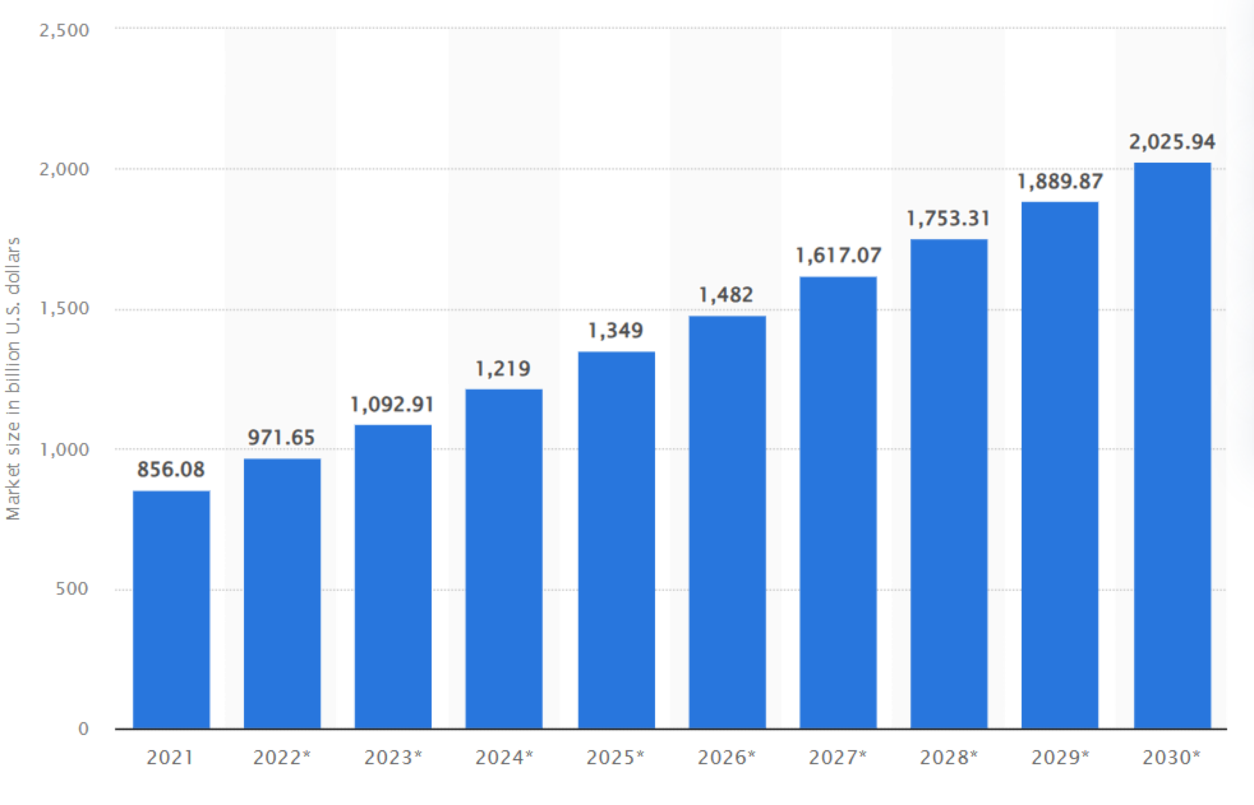


Green energy

- Market size is expected to grow rapidly in the following years
- From USD 1.09 trln in 2023 to USD 2.026 trln in 2030
- CAGR: 21%

(source: statista.com)

Global energy market size



Volume of new ESG issues by region, USD mln

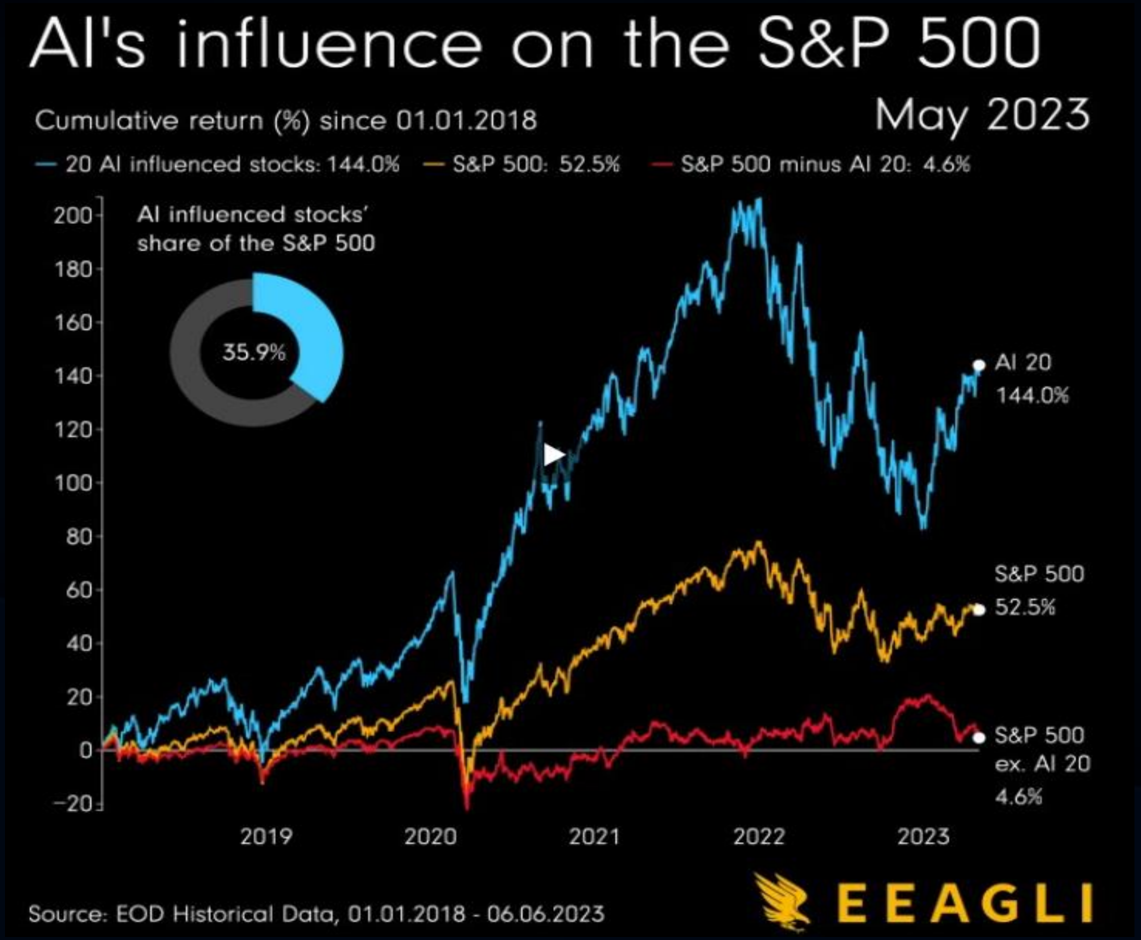
Region	2024 Jan-Mar	2023 Jan-Mar
Western Europe	65 323	64 601
DM (excl. Europe)	27 823	29 691
Asia (excl. Japan)	11 113	11 221
Latin America	7 224	1 400
Middle East	4 800	7 510
Africa	4 693	117
Eastern Europe	6 752	569
Total	**127 729**	**115 108**

(source: Cbonds monthly newsletter)

Digital transformation

- Artificial Intelligence (AI), Blockchain, IoT
- Investors’ focus set on efficient companies with innovative solutions
- Market size to reach USD 1.38 trln and grow to USD 3.62 trln by 2029
- With a CAGR of 21%

(source: mordorintelligence.com and James Eagle)



Healthcare

- Support for the sector during and post COVID
- Potential for long-term growth due to an aging population, increasing healthcare needs, and ongoing medical advancements.
- Market size to reach USD 12 trillion by 2027
- CAGR: 8.6%
- Asia-Pacific biggest contributors to growth
- AI and IoT will make up for $3.3bln and $534bln in 2025, respectively

(Source: precedenceresearch.com, zipdo)

Global infrastructure

- Need for expansion and upgrade important infrastructure globally (transportation, energy, communication networks, etc.)
- Opportunities for long-term, stable gains
- Market size to expand from USD 9.7 trln in 2022 to USD 13.9 trln in 2037
- Main drivers: China, US, India, UK
- Global green economy offers support (e.g. solar panel parks, wing farms)

(Source: https://www.oxfordeconomics.com/)

Financial services

Significant changes driven by:

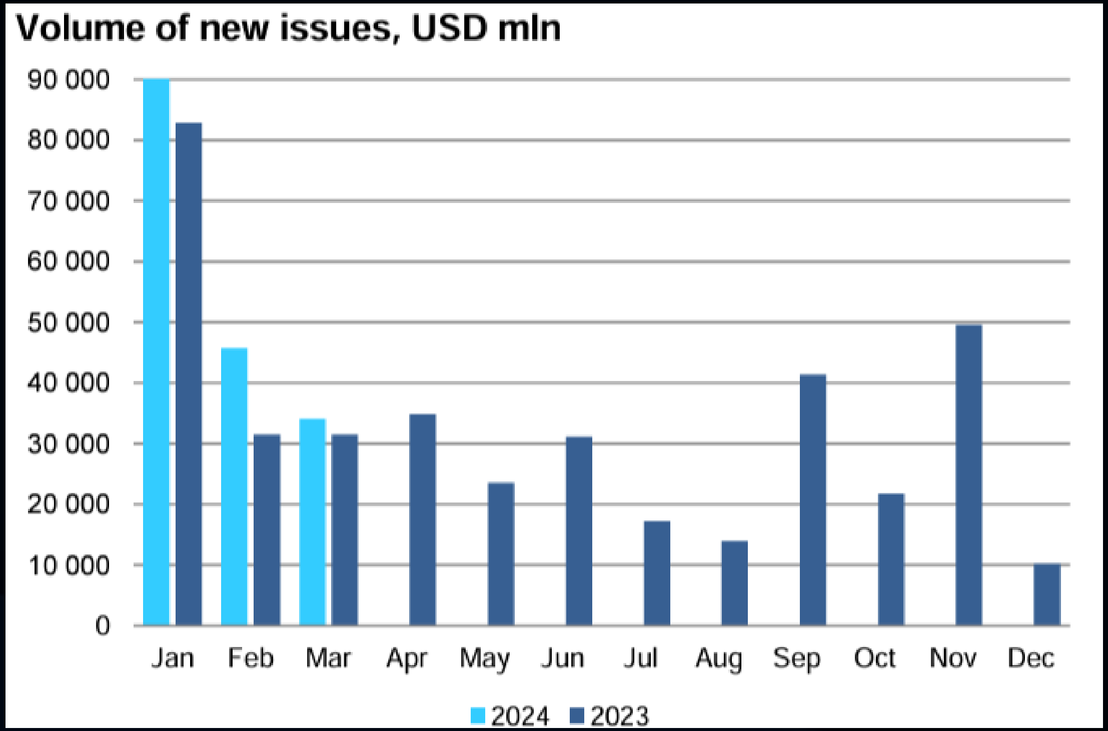
- Digital transformation
- Fintech innovations
- New consumer preferences

- Market volume to grow from USD 25.5 trln to USD 58.7 trln in 2031
- CAGR: 9.7%

(source: globenewswire.com, growthmarketreports)

Emerging markets

- Market volume increase by 28%, from USD 145.8 bln in Q1 2023 to USD 186.7 bln in Q1 2024
- Main drivers: Saudi Arabia, Poland, China, LatAm countries



Source: Cbonds monthly newsletter

Agency and non-agency securitized bonds

- Agency MBS spreads vs USTs had widened due to weak demand
- Both agency and non-agency MBS could offer investors access to strong collateral and significant cash flows at strong long-term valuations

Key considerations

- Central banks – market expectations for interest rate changes, based on the indications and forward guidance offered.
- Economic growth – As economic growth in Europe slows much quicker than that in the US, European fixed income markets tend to be more attractive.
- Geopolitcal scene – Potential for impact on the economy from the continued conflicts, mainly in Ukraine and the Middle East, including the Red Sea tensions.

Thank you!

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