

CORPORATE BONDS- FINDING OPPORTUNITY IN RESILIENCE

Even in times of geopolitical and economic unrest, attractive investment opportunities can be found. The key is to look for resilient companies and position for the long term, as Torcaill Stewart, investment manager in the Credit Team, explains.

The value of an investment, and any income from it, can fall as well as rise and investors may not get back the amount invested.

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Torcaill Stewart: War in Europe, high inflation, and continued covid-19 lock-downs in China. 2022 has certainly been a challenging year so far. In these circumstances, the key to active management is to keep moving, recognise the diversity of opportunities in a global bond universe, and position for the long-term. Because the indiscriminate market sell-off creates a great hunting ground for long-term investors. And indeed, our team has recently identified a number of outstanding opportunities to invest in bonds of resilient businesses at much higher yields than last year.

Like Rakuten. In Japanese, Rakuten stands for ‘optimism’, and the company is truly one which has evidenced the importance of optimism. It was founded as an e-commerce site in 1997. Rakuten’s entrepreneurial culture has seen the business grow to become a diversified ecosystem of services across e-commerce, banking, and insurance. Rakuten’s high quality brand is leveraged by its membership scheme. Their customers earn valuable points each and every time they use a Rakuten service. This unique offering has enabled Rakuten to create a large and loyal customer base, giving it a strong position to cross-sell new services across the Rakuten ecosystem. And the company continues to build out its service offering. Rakuten’s latest ambitions involve a push into telecommunication.

Now this will require significant capital to be spent. However, Rakuten has a very strong balance sheet so it can continue to grow the business without sacrificing its financial resilience. That gives us plenty to be optimistic about its prospects. Yet in spite of this, Rakuten’s euro hybrid bonds are offered on almost 12 per cent yield. Excellent compensation for a Japanese blue chip.

Now the rise in interest rates is not all doom and gloom. It is positive for the profitability of banks. One stand-out bank in our view is the globally diversified Banco Santander Group. With a strong and stable management team, Banco Santander has generated an impressive



track record of profitability throughout various crises. Until 2020, the group had been profitable every year over its 164-year history. The loss record in 2020 was purely accounting based – a goodwill write-down. Now from our long-term view that is entirely forgivable. With over 150 million customers and solid capital levels, we see a resilient business with a tailwind of improving profitability and are happy to lend to Banco Santander. The yield offered is 4.4 per cent in sterling. Certainly, an appealing level. So in spite of the troubled geopolitical and macro-economic outlook, we are finding many attractive opportunities in corporate bond markets. We look for resilient companies from across the globe that are now offering appealing yields. High Income is again available in today's corporate bond market.

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