

The Government Bond Conundrum

Thursday 8 July 2021

Speaker: Christian Armbruster (BLU Family Office)

Chair: Christine Brown (LGL Group)

STEP Jersey is sponsored by:



CAREY OLSEN

THE GOVERNMENT BOND CONUNDRUM WEBINAR



Blu Family Office

The webinar will begin shortly

July 2021

BLU FAMILY OFFICE

HELPING YOU TO PROTECT, INVEST
AND GROW YOUR WEALTH



THE STORY



THE 60/40 MODEL



PORTFOLIO RETURNS

In the last 10 years, The Stocks/Bonds 60/40 Portfolio obtained a 9.94% compound annual return, with an 8.47% standard deviation. Over the last 30 years, the average Sharpe ratio of a traditional 60/40 portfolio has been 0.64.

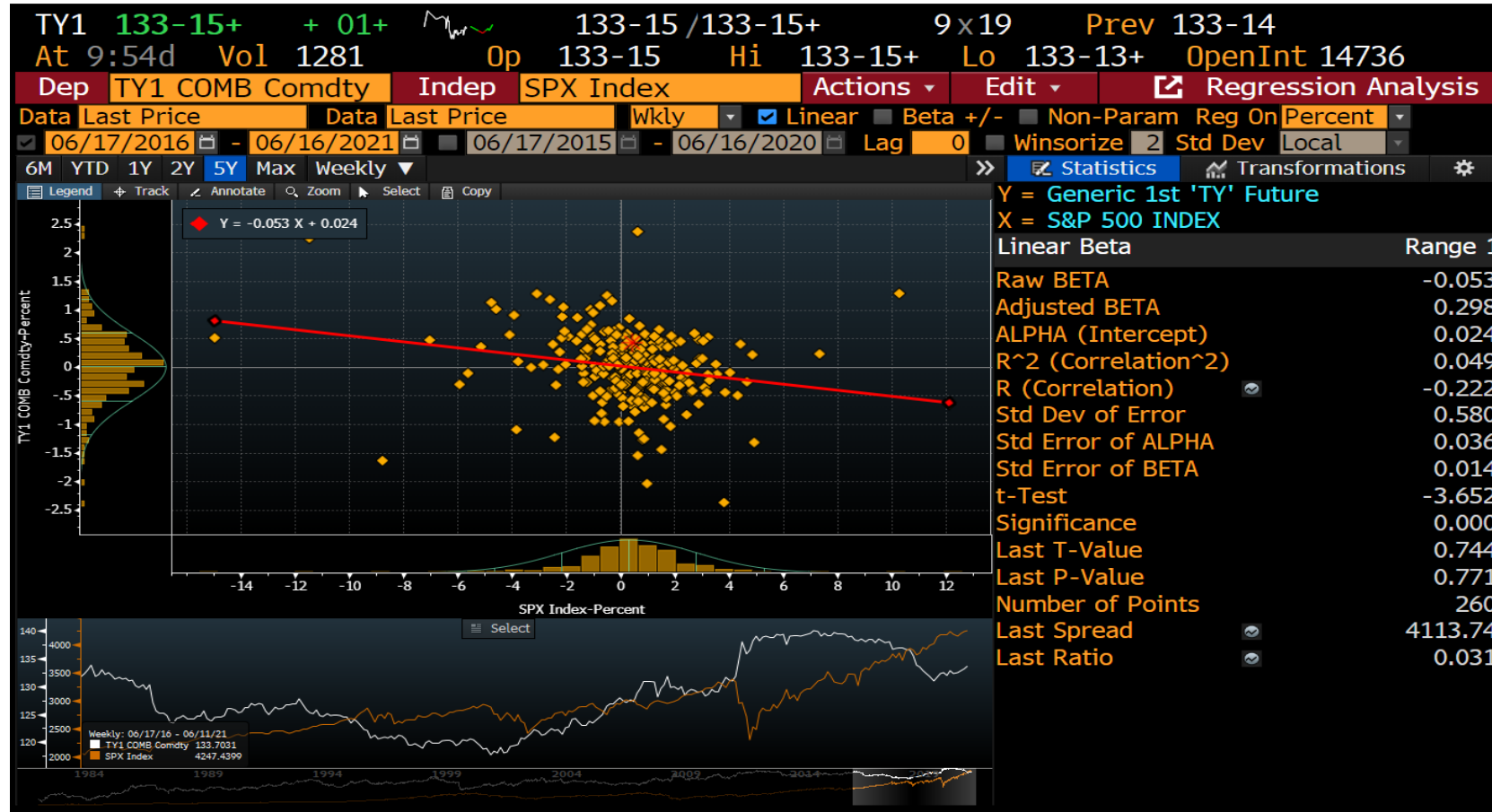
STOCKS/BONDS 60/40 PORTFOLIO RETURNS (%)

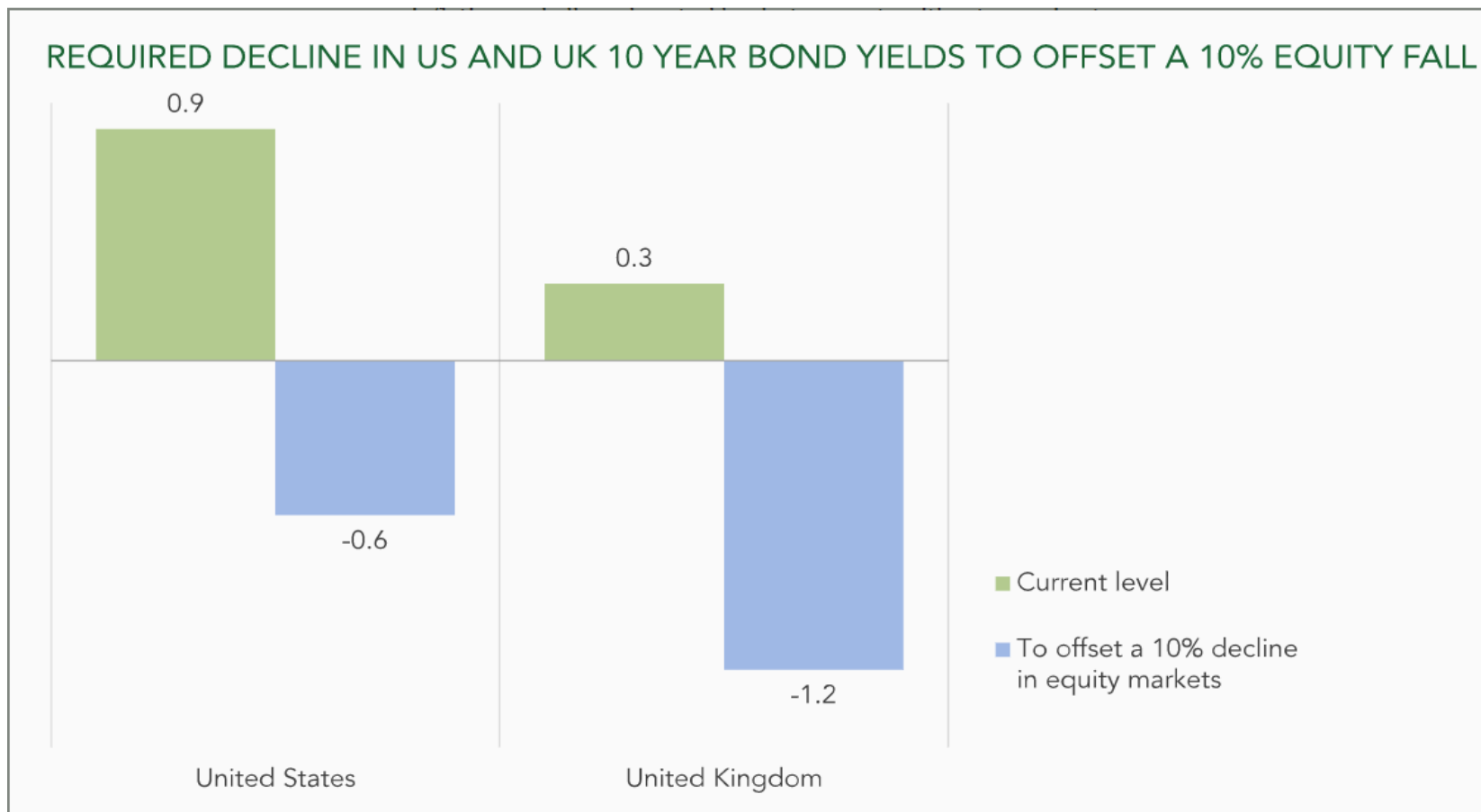
Last Update: 31 May 2021

	1M	3M	6M	1Y	3Y ^(*)	5Y ^(*)	10Y ^(*)
Stocks/Bonds 60/40 Portfolio	+0.35	+5.63	+9.52	+24.44	+12.98	+11.77	+9.94
<i>Components</i>							
VTI - Vanguard Total Stock Market	+0.46	+9.36	+17.67	+44.15	+18.04	+17.39	+14.21
BND - Vanguard Total Bond Market	+0.15	-0.26	-2.50	-0.82	+5.08	+3.20	+3.15

() annualized*

HEDGING





MARCH



QUO VADIS?



BOND MATHS

EXAMPLE 1: If Market Interest Rates Decrease by One Percent

Financial Term	Today	One Year Later ↓
Market Interest Rate	3%	2%
Coupon Rate (semi-annual payments)	3%	3%
Face Value	\$1,000	\$1,000
Maturity	10 years	9 years remaining
Price	\$1,000	\$1,082
Yield to Maturity	3%	2%

EXAMPLE 2: If Market Interest Rates Increase by One Percent

Financial Term	Today	One Year Later ↑
Market Interest Rate	3%	4%
Coupon Rate (semi-annual payments)	3%	3%
Face Value	\$1,000	\$1,000
Maturity	10 years	9 years remaining
Price	\$1,000	\$925
Yield to Maturity	3%	4%

SUMMARY

- Interest rates have fallen for four decades
- Bond investors made more money from capital appreciation than yield
- The 60/40 model has reigned supreme (and is incredibly easy & cheap) to implement
- With interest rates at rock bottom, the risk is to the downside

PROTECTION – PUTS

At current levels of volatility, it costs more than 4% per year to protect an equity portfolio.

SPX C 4223.70 -22.89 4179.62/4421.69 On 16 Jun d 0 4248.87 H 4251.89 L 4202.45 Prev 4223.70 SPX Index 95) Actions 96) Export 97) Settings Option Monitor S&P 500 INDEX 4223.70 -22.89 -.539% 4179.62/4421.69 Hi 4251.89 Lo 4202.45 Volm 0 HV 12.19 Center 3400.00 Strikes 5 Exp 17-Jun-22 Exch US Composite 92) Events Calendar EVTS » Calc Mode As of < 17-Jun-2021 >									
81) Center Strike					82) Calls/Puts				
Calls					Puts				
Ticker	Bid	Ask	Last	IVM Vo	Strike	Ticker	Bid	Ask	Last
17-Jun-22 (365d); CSize 100; IDiv 1.00; R .21; FF 420					5	17-Jun-22 (365d); CSize 100; IDiv 1.00; R .21; FF 42			
1) SPX 6/17/22 C3350	938.40y	948.90y	840.90y	26.29	3350	76) SPX 6/17/22 P3350	108.60y	112.30y	107.80y
2) SPX 6/17/22 C3375	917.10y	927.70y	379.43y	26.08	3375	77) SPX 6/17/22 P3375	112.10y	115.70y	116.00y
3) SPX 6/17/22 C3400	896.20y	906.60y	915.90y	25.87	3400	78) SPX 6/17/22 P3400	115.90y	119.50y	117.32y
4) SPX 6/17/22 C3425	875.10y	885.50y	571.79y	25.64	3425	79) SPX 6/17/22 P3425	119.70y	123.40y	117.41y
5) SPX 6/17/22 C3450	854.40y	864.60y	863.30y	25.43	3450	80) SPX 6/17/22 P3450	123.80y	127.10y	127.29y
16-Sep-22 (456d); CSize 100; R .24; FF 4208.89					0	16-Sep-22 (456d); CSize 100; R .24; FF 4208.89			
16-Dec-22 (547d); CSize 100; IDiv 1.06; R .31; FF 420					5	16-Dec-22 (547d); CSize 100; IDiv 1.06; R .31; FF 42			
6) SPX 12/16/22 C3350	964.10y	982.50y	911.00y	24.96	3350	101) SPX 12/16/22 P3350	157.40y	163.10y	161.95y
7) SPX 12/16/22 C3375	944.00y	962.50y	911.74y	24.78	3375	102) SPX 12/16/22 P3375	162.00y	167.90y	166.20y
8) SPX 12/16/22 C3400	924.30y	942.40y	900.30y	24.63	3400	103) SPX 12/16/22 P3400	166.90y	172.80y	173.50y
9) SPX 12/16/22 C3425	904.40y	922.60y	897.00y	24.45	3425	104) SPX 12/16/22 P3425	171.70y	177.80y	164.71y
10) SPX 12/16/22 C3450	884.80y	902.60y	918.47y	24.23	3450	105) SPX 12/16/22 P3450	176.90y	182.90y	181.90y
20-Jan-23 (582d); CSize 100; IDiv 1.02; R .31; FF 420					5	20-Jan-23 (582d); CSize 100; IDiv 1.02; R .31; FF 42			
11) SPX 1/20/23 C3300	870.90y	1170.90y		24.98	3300	106) SPX 1/20/23 P3300	74.40y	374.40y	152.60y
12) SPX 1/20/23 C3350	830.80y	1130.80y	997.40y	24.66	3350	107) SPX 1/20/23 P3350	83.90y	383.90y	169.20y
13) SPX 1/20/23 C3400	791.20y	1091.20y		24.35	3400	108) SPX 1/20/23 P3400	14.30y	314.30y	
14) SPX 1/20/23 C3450	752.00y	1052.00y		24.02	3450	109) SPX 1/20/23 P3450	62.00y	362.00y	
15) SPX 1/20/23 C3500	713.20y	1013.20y		23.69	3500	110) SPX 1/20/23 P3500	95.80y	395.80y	193.41y

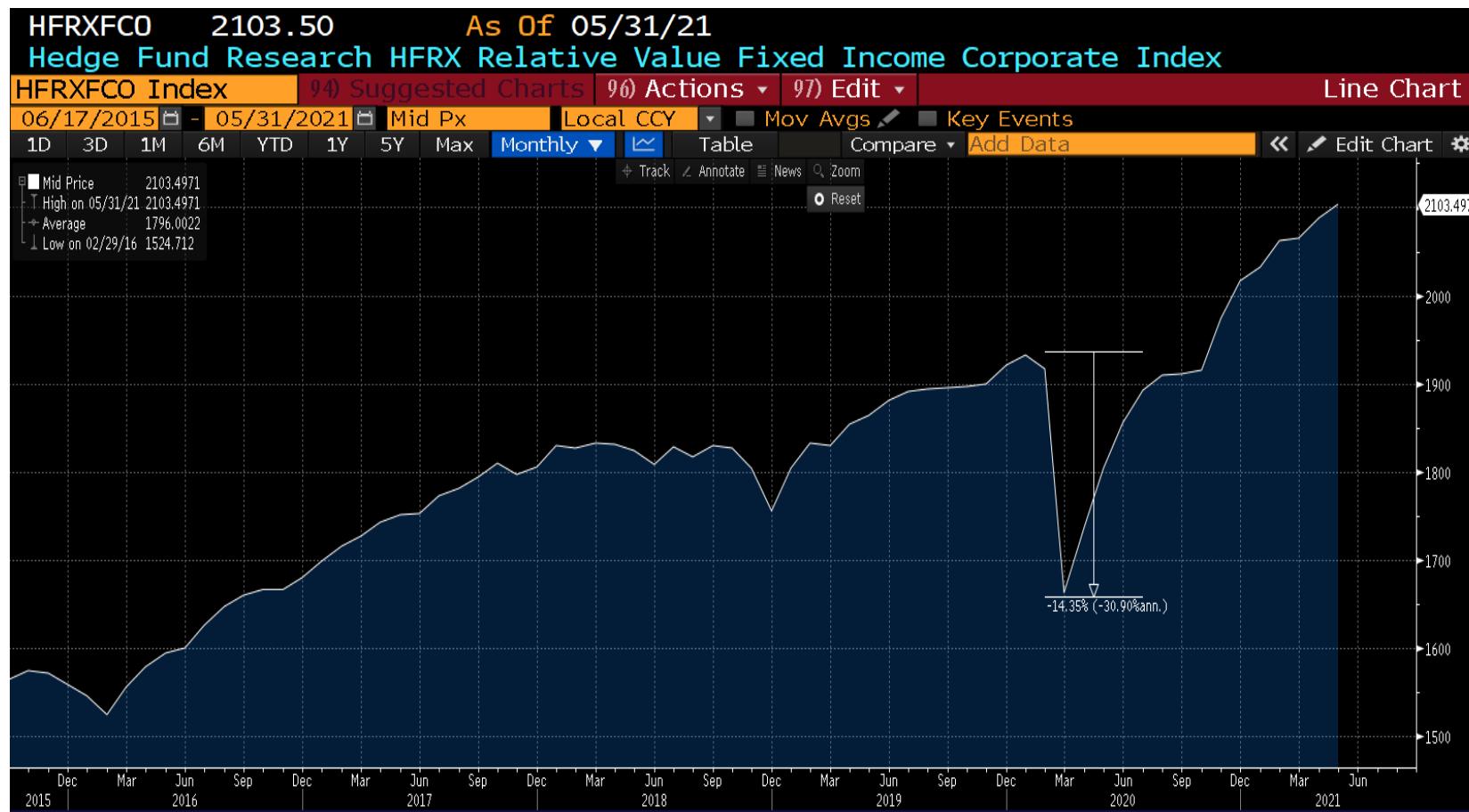
PROTECTION – DIVERSIFICATION

	<u>Pros</u>	<u>Cons</u>
Corportate Bonds	Liquid Cheap	High Correlation to Equities Interest Rate Risk
Commodities	Liquid	High Volatility Contango
Private Markets	Low Correlation to Equities	Illiquid Expensive
Property	Low Correlation to Equities	Illiquid Management
Hedge Funds	Large Variety Low Correlation to Equities	Complex Expensive

FIXED INCOME RETURNS



RELATIVE VALUE CREDIT



CONCLUSIONS

- Government bonds are no longer a free lunch (i.e. protection and getting paid for it)
- Cash is no alternative
- Protection through diversification
- Fixed income alternatives hard to come by
- Inflation versus deflation risk

STAY IN TOUCH

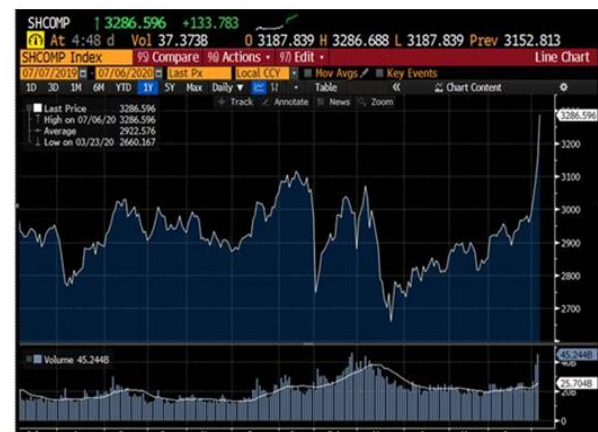
Daily Trade Report

Markets up big to start the week. Levels: S&P at 3162 (up 1.5%), Estoxx at 3350 (up 2%) and EM up 2% at 1067. Treasuries down 0.5% at 177.5 and Gold down 0.25% at 1772. Oil up 0.5% at 40.5 and Copper up 1% at 6080. Sterling up 0.25% at 1.249 and so is the Euro at 1.128. VIX flat at 27.6 and the ITRX is up 2% at 373.

News flow: China stocks surge on continued government support, US sets new infections record for 27th straight day, London pubs reopen and it was "absolute madness".

Charts of the day: The China Bull

1. China is having quite a run



Weekly Blog

Investing Debt

Cash & Leverage

Cash, Capital and Collateral

29/06/2020 | Christian Armbruster



Why we must borrow when the giving is this good.

Webinars, Seminars & Events

Blu Wine Tasting Event Invitation

Date: Wednesday, 11th September

Time: 18:00-21:00

Venue: [Hedonism Wines](#), 3-7 Davies St, Mayfair, London, W1K 3LD

Dress code: Smart / Business Casual



Any Questions?

THANK YOU FOR YOUR ATTENDANCE

STEP Jersey is sponsored by:



CAREY OLSEN