

# The Government Bond Conundrum

Thursday 8 July 2021

**Speaker:** Christian Armbruster (BLU Family Office)

**Chair:** Christine Brown (LGL Group)

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**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

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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.

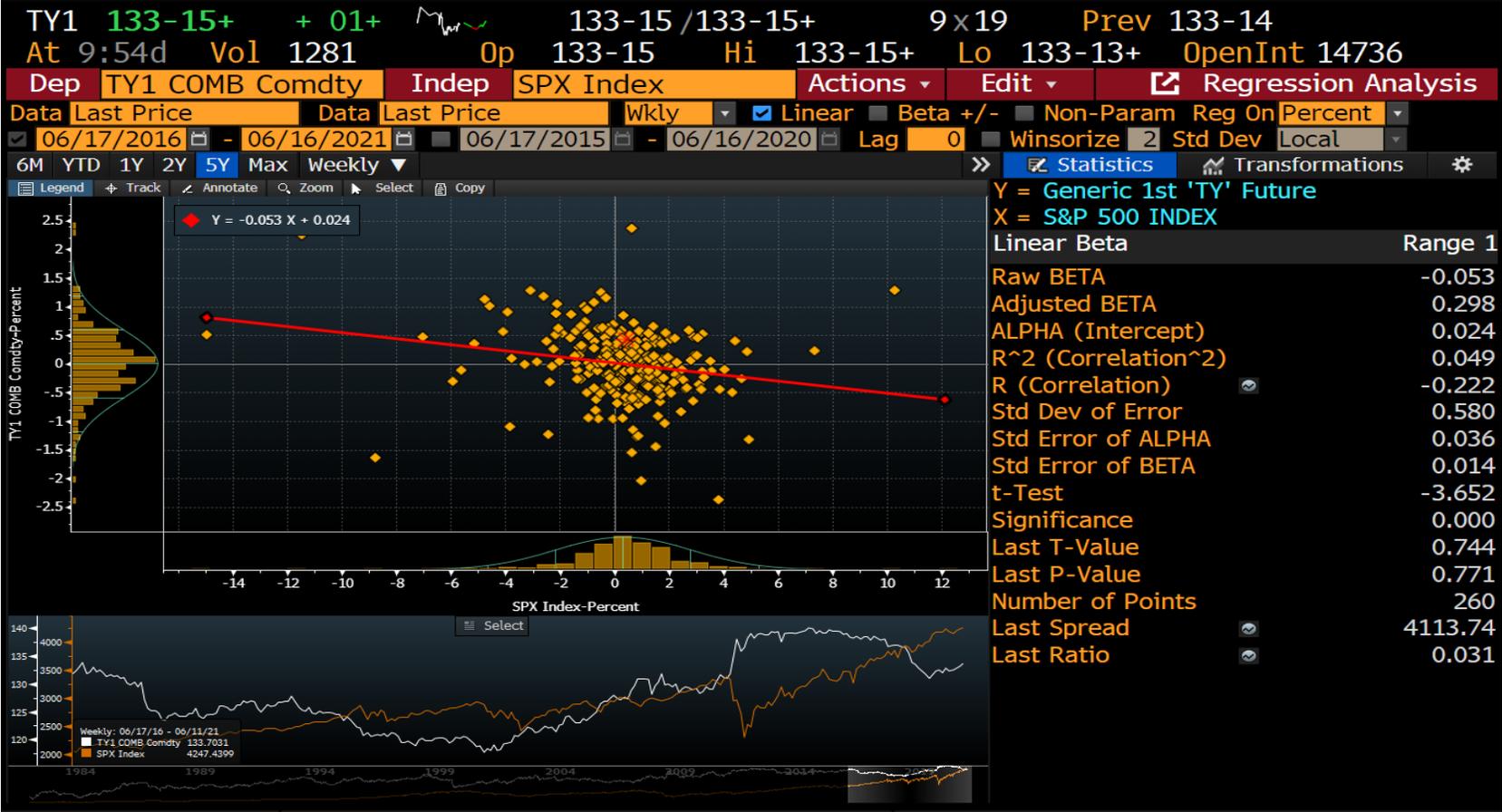
## STOCKS/BONDS 60/40 PORTFOLIO RETURNS (%)

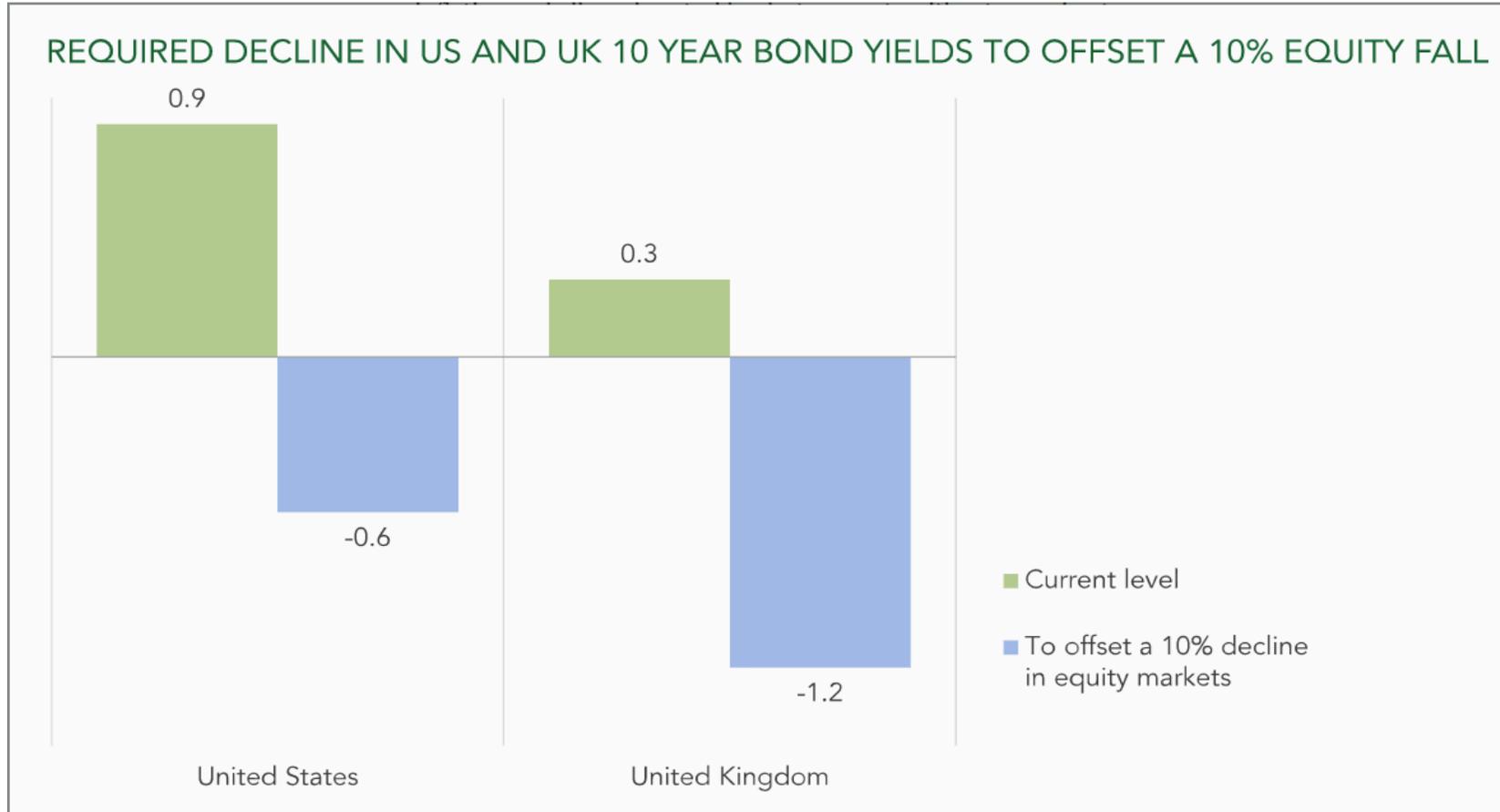
*Last Update: 31 May 2021*

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

*(\*) annualized*

# HEDGING





# MARCH



# QUO VADIS?



# BOND MATHS

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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

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- 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 98) Events Calendar   EVTS »											
Calc Mode As of < 17-Jun-2021 >											
81) Center Strike 82) Calls/Puts 83) Calls 84) Puts 85) Term Structure 87) Moneyness											
Calls					Puts						
Ticker	Bid	Ask	Last	IVM Vo	Strike	Ticker	Bid	Ask	Last	IVM Vo	
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	26.52 1	
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	26.27	
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	26.04 2	
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	25.81	
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	25.58	
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	25.15	
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	24.96	
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	24.80 1	
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	24.61	
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	24.41	
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	29.78	
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	29.30	
13) SPX 1/20/23 C3400	791.20y	1091.20y		24.35	3400	108) SPX 1/20/23 P3400	14.30y	314.30y		23.68	
14) SPX 1/20/23 C3450	752.00y	1052.00y		24.02	3450	109) SPX 1/20/23 P3450	62.00y	362.00y		25.75	
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	26.76	

# PROTECTION – DIVERSIFICATION

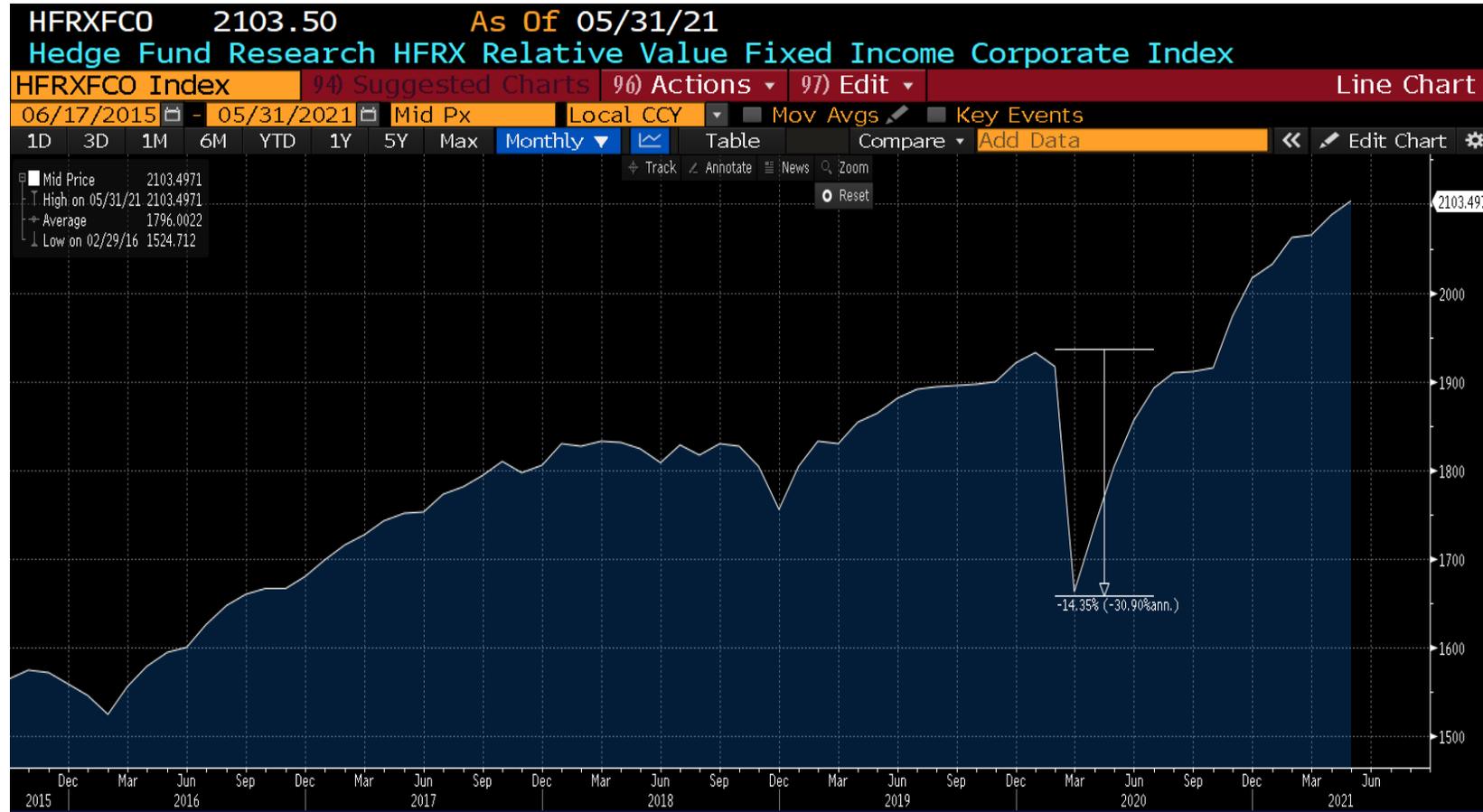
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	<u>Pros</u>	<u>Cons</u>
<b>Corporate Bonds</b>	Liquid Cheap	High Correlation to Equities Interest Rate Risk
<b>Commodities</b>	Liquid	High Volatility Contango
<b>Private Markets</b>	Low Correlation to Equities	Illiquid Expensive
<b>Property</b>	Low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

# FIXED INCOME RETURNS



# RELATIVE VALUE CREDIT



# CONCLUSIONS

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- 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

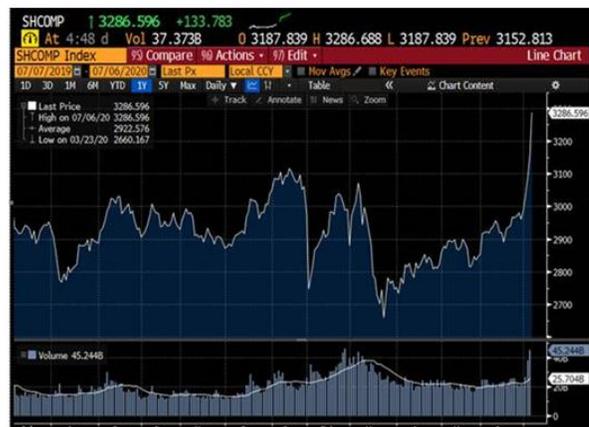
## Daily Trade Report

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 27<sup>th</sup> 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**

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