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LION GLOBAL'S CHIONG TUCK: WHY BOND BUBBLE BELIEVERS NEED A REALITY CHECK

OVERVIEW

Phoon Chiong Tuck, Lion Global Investors' head of fixed income and fund manager of the LionGlobal Short Duration Bond Fund, spoke to Citywire Global's Nick Tay.

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While many market participants talk of a growing bubble in G7 bonds, Phoon Chiong Tuck, head of fixed income at Lion Global Investors, believes investors are failing to recognise an important point.

Chiong Tuck, who manages the Lion Global Short Duration Bond fund says that while liquidity has run high, investors instead need to focus their attention on the reason why yields are so low.

'Certainly there's a lot of liquidity and it's flowing into various places, including bonds driving down yield levels,' says Chiong Tuck.

'Most people will say yields are so low and not where they should be. Credit spreads are about the levels of long-term averages, so it is government bond yields that are low. Why are government bond yields so low? It is the central banks that are big buyers of government bonds. So the source of liquidity is also the reason government bond yields are so low,' says Chiong Tuck.

‘The question we pose is this: given the reason for low yields is because policymakers and central banks are trying to support growth, and given that central banks can continue doing this for some time, how would they want to unwind all the liquidity that they have put in the system?'

Orderly exit

Chiong Tuck says central banks do not want to disrupt or undo all the good that monetary easing has done.

That's why he thinks the discussions the Fed is having about exiting its quantitative easing program are about how they can taper off or stop further purchases, and how long they should be holding securities they have purchased on their books.

'It is not about the immediate sale or dumping of those securities. All this points to the unwinding of the bond bubble in a non-disruptive way. So when interest rates go up, they are likely to go up in a gradual way, not in a sharp spike.’

Renamed on 17 January 2013, Phoon's Lion Global Short Duration Bond fund was re-launched to fill a role among the Lion Global Investors suite of funds.

Short-dated demand

‘What we found in conversations with investors was the potential demand for a fund that was short in interest rate duration, but that had enhanced returns without taking too much risk. The LionGlobal Short Duration Bond fund complements our money market and full duration fund offerings,’ says Chiong Tuck.

The fund invests in Singapore bonds, international bonds, and real estate investments trusts, business trusts and other securities. The short-duration focus of the fund, maintains an average duration of generally below 4 years.

On the presence of long-dated issues in a short duration bond fund, Chiong Tuck explains: ‘We look at interest rate risk of the portfolio in total. So we may hold a certain 10-year issue that is attractive, when it is balanced by holdings of other short-dated issues to end up with a combined portfolio duration of 1 to 4 years.'

'Further, when looking at securities, sometimes the maturity itself is not a good indication of duration risk, which is what we are trying to control. For example when you have a floater (a bond whose coupon fluctuates with short-term interest rates) that has a 10-year maturity, the duration risk may only be 6 months, since the coupon is re-set to market levels every 6 months.