

Danske Invest FI's Petry: Peril and Promise in 2017

Stockholm (HedgeNordic) – Michael Petry (*pictured*), chief portfolio manager at Danske Bank's flagship hedge fund Danske Invest Hedge Fixed Income Strategies, which has \$1.15 billion in AUM recently conducted a wide-ranging interview with Barron's in which he reveals his forecasts for bond markets in 2017.

The most pressing issues facing global bond investors will be navigating markets impacted by the more-than-likely interest-hike by the U.S. Federal Reserve in December, to be followed by a couple more in 2017, Petry thinks. In addition, by the end of the year, continental growth will allow the ECB to start tapering its quantitative-easing program. Fixed income investors will face challenges from uncertainties arising from the election of Donald J. Trump and the Brexit vote in the U.K.

"The election of Trump has introduced all kinds of uncertainty," Petry said. On the other hand, should Mr Trump's pledges to create jobs and infrastructure stand the test of governance, Mr Petry sees opportunities in rising government and consumer spending and the likelihood of higher interest rates. "I'm expecting this to have a spillover effect in Europe, as growth continues to improve and long rates normalize," he said.

Petry remains most concerned, however, with the rise of nationalistic governments globally and in Europe: "Victories for Brexit and Trump are triumphs for more isolationist policies, ignoring the value that treaties have had on the promotion of stability," he says. He fears the West could be entering a period in which a lack of cooperation between nations may lead to more international turmoil, further heating up already tense conflicts. "And markets don't like that."

Nonetheless, Petry thinks European banks will continue to shed their monetary control of markets and sell off debt from their portfolios, which could mean fewer players, less liquidity and more volatility, particularly if new conflicts arise. It does, however, offer opportunities for a fund like Danske Invest Fixed Income Strategies, which profits from mispricing and generates consistently high returns while effectively managing its risk.

The bulk of Danske Invest FI's portfolio is in Scandinavian securities, though it also buys euro-, sterling- yen- and U.S. dollar-related products. Since inception in 2005, the fund has generated annualized gains, net of fees, of over 12% with volatility of less than 9%, with trailing one- and five-year records of over 15% annually and volatility under 6.4%.

Since the financial crisis, the fund has been long Swedish and Danish mortgage bonds of various maturities, profiting from the spread between their yields and the fund's hedging and financing costs. Its sweet spot is bonds with three- to five-year maturities, which it often holds for one to two years.

Read the whole interview with Michael Petry [here](#).