Dynamically Different

Stockholm (HedgeNordic) – Ariel Bezalel is the fund manager behind the Jupiter Dynamic Bond, a fund that uses an unconstrained approach to investing in fixed income markets globally. According to Bezalel, being unconstrained is key as financial markets are shifting gears, likely entering a period of more volatility as the credit cycle is nearing its end.

“The low volatility regime has run its course and we are seeing more challenging market conditions ahead. This requires a very flexible approach in order to find pockets of alpha and to swiftly shift exposures and to actively hedge currency and credit risks”, Bezalel explains continuing:

“Financial markets are currently in a state where macro events globally are making volatility creep into the markets. We have seen significant volatility in currencies, especially within emerging markets. Government bond markets have definitely been more concerned about rates. In credit markets, there are elevated concerns that we are coming to the end of the credit cycle.”

“The beauty of having an unconstrained approach is that you have a wide array of tools ready to express your views according to how you may see the landscape evolving. We can trade everything from government bonds all the way down to distressed. As we currently believe that we are near the end of the credit cycle we are moving up in the credit rating spectrum buying into higher-rated assets. Within our mandate, we can also hedge out some risks using credit default swaps.”

Bezalel highlights the fund’s flexibility in terms of adjusting duration.

“We have enormous flexibility in terms of adjusting duration exposure. We have the ability to reduce spread duration in corporate debt, which is what we have been doing, but on top of that, given our view that growth is to disappoint in the coming months and that we are in a lower for longer interest rate environment, we have the ability to increase duration through the government bond market.”

An Approach Benefiting from Increased Uncertainty

It is not the first time Bezalel is up against volatile markets. He has successfully managed the fund through all sorts of market scenarios and it is in more stressed market environments that his approach, in relative terms, has added the most value to competing products.

”I think the way we manage the fund is really quite different. There are other so-called unconstrained funds out there but they are typically limited as to how much risk they can put in different parts of the market and don’t tend to be as macro aware as we are. We form our view of global financial markets through extensive macro analysis and take positions where in the parts of the fixed income markets that will perform best in certain scenarios.”

We have been running this strategy since 2008 and this SICAV fund since 2012, and have weathered storms before.

A Non-Consensus View

The fundamentals that Bezalel refers to are very much linked to the development of the US economy, where the manager sees conditions as being a late cycle with low risk of significant inflationary pressures going forward. This is in contrast to the consensus view that higher inflation will filter through to the US Federal Reserve hiking rates more aggressively.

“If we were to see aggressive reflationary policies around the world we would need to revisit our view, but what we are seeing is very much the opposite,” Bezalel says citing tighter liquidity conditions, tighter monetary policy from the Fed and ongoing tightening of policy as the Fed is reducing the balance sheet, a process know as Quantitative Tightening. This is currently running at a pace of USD 50 billion a month. All this tightening is likely going to be too much for the global economy to bear so the recent spurt in volatility is not too much of a surprise to Bezalel.

The big move that the portfolio is positioned for is, according to Bezalel, a situation where the Fed capitulates on its attempt to ”normalise” rates and may even have to consider easing policy once again.


Ariel Bezalel, Portfolio Manager, Jupiter Dynamic Bond

“We are looking for an event where the Fed says, ´ok we are not going to hike four times in the coming twelve months’. Beyond the December hike, which looks baked in, we think that the prospects for further hikes are a bit more clouded. Given concerns about trade wars, Italy, worries about the growth picture in China and recent concerns around corporate profits, there is potential for decent downside, especially given that we have had a bull run for ten years now and credit spreads in developed markets are pretty much at the tights.”

”We are holding on to our lower for longer stance and are not afraid of duration at this juncture. We have been buying US treasuries as well as Australian government bonds to reflect this view. It’s important to note that because of our growth concerns surrounding Australia we have hedged out the currency risk here.”

The Case for a Diversified Fixed Income Exposure

Bezalel makes the point of having a diversified approach to fixed income investing, which can become even more important at times when the market looks vulnerable.

“There are currently a lot of pockets of idiosyncratic risk that investors need to be aware of and positioned for. We are seeing risk creeping into corporate credit markets with individual bonds collapsing 10 to 20 points on a more frequent basis.”

“There is a great quote by Warren Buffett saying that when the tide goes out we will see who is swimming naked. We are beginning to see concerns about individual businesses and potential black holes in the accounting of certain companies, which is symptomatic of a late cycle."

"The way we approach the bond market is that we are running a fairly diversified portfolio, essentially a barbell strategy, where we have our top picks and trade across many markets, including emerging markets. We use the high-quality triple-A government bond markets as risk mitigation from a deflationary shock, which we see as increasingly likely. From an investor standpoint I think it makes sense to apply a dynamic approach to bond investing and in our case, you get an approach that is dynamic and very different to most other funds out there."

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