Bracing for the Return of Inflation

Stockholm (HedgeNordic) – The team managing **Nordic Cross Total Return Bond Fund** is bracing for the possibility that higher inflation expectations may make a sudden return, which could trigger increased volatility in corporate bond markets. Fredrik Tauson *(pictured center)*, a founding partner and portfolio manager at Swedish asset manager Nordic Cross Asset Management, tells Bloomberg that their Total Return Bond Fund has taken advantage of "normal" market conditions to increase the portion of liquid assets in the portfolio.

"From time to time, the corporate bond market is dysfunctional with large liquidity challenges," Fredrik Tauson told HedgeNordic last year. In March of last year, 35 funds related to the corporate bond market in Sweden closed doors for redemptions amid a liquidity crunch in the country's fixed-income market. "The Swedish market is characterized by daily trading funds with similar profiles both when it comes to the investments and the savers in the funds, meaning that they often have inflows and outflows at the same time," Tauson tells Bloomberg. Nordic Cross Total Return Bond Fund is yet again preparing for an increase in volatility and potential outflows. The trigger could be "sharply higher inflation expectations and rising rates," Tauson tells Bloomberg.

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Nordic Cross Total Return Bond Fund, which aims to provide investors exposure to BB and BBB corporate credit, currently holds about 35 percent of its portfolio in cash and cash equivalents in the form of AAA-rated bonds with short maturities. This figure represents "a high level compared to traditional corporate bond funds," Tauson tells Bloomberg. This cash cushion will be "put to work during turbulent markets, as we see deeply undervalued bonds," he continues.

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As Tauson explained last year, "instead of investing every last penny in holdings hampered by scarce liquidity, we invest only about 60 percent of the fund in direct corporate bond holdings during normal markets." To compensate for the low- or non-yielding portion of the portfolio, the team running Nordic Cross Total Return Bond Fund uses derivatives to boost the credit exposure during periods of low volatility. The automatically-adjusting credit exposure through derivatives has low capital utilization and leaves the team with ample cash to deploy opportunistically in times of turmoil and liquidity crunches.

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European investment-grade and high-yield markets.