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Using a Multi-Sector Income Strategy to Enhance Your Clients' Portfolios

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What Is the Objective of a Multi-Sector Income Strategy, and Why Might One Consider This Approach Over Simply Purchasing an Aggregate ETF?

The global aggregate is essentially all sovereign rate risk. The beauty of a multi-sector income strategy, like that at Janus Henderson, is that it can go almost anywhere in the fixed income universe: sovereigns, corporate credit, and securitised credit. And more importantly, investing in the sub-sectors that are often overlooked in indices, whether it's the global Aggregate or the US Aggregate, can offer tremendous value and provide a much better, or more optimised blend between the key fixed income risks, interest rate risk, and credit risk. We feel that ultimately, that delivers a much better balance and a more optimised portfolio for investors to provide return and income.

Could You Encapsulate the Multi-Sector Income Strategy in Three Key Points?

The Janus Henderson Multi-Sector Income Strategy is a strategy of the best ideas found throughout the fixed income universe. It's a strategy with the goal of providing more yield than a traditional core plus strategy, but also much less downside volatility than a traditional high-yield-only strategy.

The Multi-Sector Income Strategy also is an active sector allocation with fundamental bottom-up research driving that security selection to deliver a good blend of yield and total return opportunities across corporate credit, securitised credit, and other sectors within the fixed income universe.

According to Janus Henderson, What Opportunities Do Securitised Assets Present?

We find securitised credit offering very good relative value based on historical levels. When we look at the opportunity set in fixed income today, when we're looking for additional yield or spread. When we look at corporate credit, it's relatively tight or rich based on historical levels. And as we think about the potential that we could go into a slower economic environment, we think that those spreads could widen out. Whereas securitised is much better reflective

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of the potential of a slow economic environment. Additionally, whether it's in AAA rated mortgage-backed securities, which are near the cheapest they've been and more than a decade relative to corporate credit or AAA rated collateralised loan obligations, so CLOs, they offer very good relative value and additional spread or income opportunity for investors.

As we think about some of those securitised assets as well, whether it be CLOs, asset-backed securities, or commercial mortgage-backed securities near the front end of the yield curve we can pick up a tremendous amount of yield with very low interest rate sensitivity. So, we've been shifting a lot of our capital away from corporate credit and more towards securitise. Which we think offers more diversity and a fixed income portfolio. Offers additional yield, particularly as we've got an inverted yield curve in the states. So therefore, taking much less interest rate sensitivity and things that we think are offering a much better relative value based on historical levels.

How Does Janus Henderson Address the Conflict Between the Allure of Short-term Yields and the Potential Value in Long-term Bonds, and Reconcile the Two Opportunities?

We refer to this as balancing the barbell between yield and duration. On the one hand, the front end of the curve or short-term interest rates are something that we like to say you can date, but you can't marry them. You won't hold them for a long time. When you think about cash or money market instruments, right now they look like they're relatively attractive. Eventually though, when and if the front end of the yield curve starts to come down, that opportunity set is going to fade away.

At Janus Henderson, we think you need more diversity on the front end of that curve to capture additional yield spread as well. One place we're finding this is in securitised instruments such as collateralised loan obligations. On the other hand, that balancing that barbell comes from a duration. As interest rates have backed up significantly, duration can be an investor's friend to help protect against risk asset volatility. So, we think that investors should start to shift some of their portfolio to add some duration to it. They don't have to go very far out the curve, but that's going to give them a better blend between that yield opportunity on the front end and the potential protection that duration can add as they shift the portfolio a little further out. Eventually when we get increased market volatility and that front end of the yield curve comes down, that duration can also help drive some of that return and protect capital when we get increases in risk asset volatility.