中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

Video subject: How Could Investors Navigate the Bond Market in the High-Yield Era?

Video highlights:

- Despite the recent pullback in U.S. Treasury yields from their peaks, global sovereign bond yields remain elevated amid sticky inflation and expectations of global central bank rate hikes. The market expects the FOMC to potentially raise interest rates once more in December. Meanwhile, European markets face divergent pressures, with German bond yields softening while French bond yields hit historical high since 2002 due to fiscal and political instability. Should benchmark rates remain elevated or rise further in December, securitized bonds—primarily composed of floating-rate and low-duration assets—minimize direct interest-rate shocks as their coupons adjust dynamically with reference rates, structurally reducing overall portfolio sensitivity compared to traditional fixed-rate long bonds.
- The core investment thesis of securitized bonds focuses on lending income derived from consumer and corporate credit—such as residential mortgages, auto loans, credit card receivables, and especially essential corporate working-capital loans. Professionally managed structures acquire these assets from financial institutions, establishing specialized corporate entities to consolidate them into structured tranches ranked by credit quality. Graded by international rating agencies and spanning from prime AAA tranches down the credit spectrum, this institutional architecture allows securitized bonds to mirror a banking model to secure high-yielding returns.
- Traditional global fixed-income yields fluctuate between 4% and 8%, whereas a global securitized strategy strikes an optimal balance by delivering an approximate 6% yield alongside a premium A- investment-grade profile. This profile avoids the elevated default risks of high-yield corporate bonds (BB/B)—despite their higher average yields of 6% to 8%—while outperforming higher-grade (AA+) but lower-yielding U.S. Treasuries, which offer around 5%. Backed by a structure where over 90% of assets feature floating-rate mechanics, securitized bonds remain a highly defensive allocation with a 3-year annualized volatility of just 1.4%, showcasing a price stability that could outperform sovereign debt.
- Historical anxieties associating securitized assets with the 2008 financial crisis stem from product that is highly correlated with subprime mortgages that severely lacked underlying borrower and credit transparency. Modern post-crisis frameworks have structurally transformed the asset class, led by major legislative milestones like the U.S. Dodd-Frank Act of 2010. Stringent regulations now mandate a 5% manager risk-retention rule to align intermediary incentives with investors, enforce granular, loan-level portfolio data disclosures, and tightly regulate credit rating agencies to prevent conflicts of interest. These combined structural safeguards ensure an open, robust, and highly resilient institutional ecosystem for contemporary fixed-income allocation.

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When investing in high-yield or unrated bonds or related products, investors face higher default risk, credit risk or liquidity risk, and are more susceptible to the impact of economic cycles. During economic downturns, their value typically declines more as (i) investors become more risk-averse and (ii) default risk increases. Foreign currency investments are subject to exchange rate risk which may result in gain or loss. The fluctuation in the exchange rate of foreign currency may result in losses in the event that customer converts the foreign currency into HKD or other foreign currencies. Renminbi is not freely convertible at present. The actual conversion arrangement will depend on the restrictions prevailing at the relevant time.

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