Vivek Prabhu: Navigating credit investments through the oil shock

By Perpetual Asset Management
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Confidence and caution rarely share the same space in financial markets. Yet, earlier this year, investors were simultaneously willing to pay for upside, while quietly insuring against downside.

Perpetual's VIVEK PRABHU explains

- Confidence and caution are unusual bedfellows
- In uncertain times, speed matters
- Find out about Perpetual Diversified Income Fund (ASX:DIFF)

"The market was saying there were some risks, and potentially some quite binary outcomes. At the time we didn't know what the catalyst for re-pricing was, but it ended up being the Middle East conflict," says Vivek Prabhu, head of credit and fixed income at Perpetual, and manager of Perpetual's Diversified Income Fund.

The binary scenario arrived, and portfolios either had protection in place or they didn't.

"I'd positioned the portfolio a little bit more defensively in order to mitigate any downside risk and that provided us with some optionality," Prabhu says. It meant the fund could move quickly when assets were marked down.

The war in the Middle East and the spike in energy prices dominated market thinking, Prabhu explains.

"Over the last few weeks, whether you traded equities, interest rates or credit spreads, you became an oil trader."

But it was important to look beyond that.

Making money in March

During the month of March, as part of the fund shifting from a more defensive stance, the average maturity increased by around six months, to three years, Prabhu says.

"I had half the portfolio in senior bonds pre-invasion and I reduced that by about 10 per cent and rotated into bank and corporate hybrid securities to take advantage of the repricing of risk."

He added that speed mattered because "as an investor if you didn't act quickly, you missed the opportunity".

What next?

Fast forward to today, Prabhu says it's unclear whether investors are operating in a risk-on or risk-off environment.

"You have seen defensive assets like fixed rate bonds and gold sell off and more risky assets like equities back above their pre-invasion levels. Credit is somewhere in the middle.

"While it isn't fully clear what type of market we are in, it does highlight that as an investor you need to be active and to act quickly," Prabhu says.

If there is a lasting ceasefire and peace accord in the Middle East, and Prabhu is hopeful of both, then investor focus will return to interest rates and economic growth.

With those potential headwinds, there is an opportunity for investors to take some profits, Prabhu says.

About Vivek Prabhu and Perpetual Diversified Income Fund

Vivek is Perpetual’s Head of Credit & Fixed Income. He joined Perpetual in 2004 and has more than 30 years of experience in finance, investments, accounting, governance and risk management.

He has managed multi-billion-dollar fixed income, credit and currency portfolios and his role involves credit analysis, trade execution and portfolio construction.

Vivek’s Perpetual Diversified Income Fund (DIF) is designed for investors seeking daily liquidity, reliable income and capital preservation via a portfolio of predominantly high-quality, investment-grade credit securities.

The strategy is now also available as an ASX-listed active ETF (ASX: DIFF). DIFF is a unit class of DIF.

Find out more about ASX-listed Perpetual Diversified Income Fund (ASX:DIFF) here or the manage fund here.
Find out about Perpetual's credit and fixed income capabilities
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