

Charteris's Ian Williams issues UK gilts 'bloodbath' warning

STRATEGY

by Nick Reeve

UK gilts are in a "dangerous bubble" that will result in a "bloodbath" when yields start to rise, Charteris's Ian Williams has said.

Mr Williams, manager of the £82.2m City Financial Strategic Gilt fund, warned that gilt investors "could lose a lot of money" when government bond yields – which move inversely to prices – start to rise.

"Gilts are ultra-expensive now, so if yields go down further we're going into unsustainable cloud cuckoo land. Prices are discounting a 1930s depression, which is not going to happen," he said.

"The outcome is certain. It is just a question of when. When the tide turns it is going to be an absolute bloodbath, one of the

biggest bloodbaths since the tech bubble, and I think most people would agree."

UK 10-year government bond yields hit record lows of 1.92 per cent last week, before rising to 2.06 per cent on Friday. This compares with equivalent US treasury bond yields of 1.97 per cent and German bund yields of 1.86 per cent.

This marks the latest peak for gilts, which have soared in value during the eurozone crisis as investors have sought safe havens. It follows the January 13 downgrading by Standard & Poor's (S&P) of nine eurozone countries, including France and Austria, which both lost their AAA credit ratings. The European Financial Stability Facility was also downgraded last week by S&P.

Mr Williams said his main aim for 2012 was to protect

capital, and as a result he had moved heavily into short dated gilts of two and three year maturities.

"Why anyone would want to buy gilts, God only knows," the manager said. "One of the only ways to make money is to be short - if I could short gilts in this fund then I would, and quite soon."

The manager's bearish stance and his strategy of writing options on the assets within the portfolio led to the fund losing 0.2 per cent over the course of 2011, while the IMA UK Gilts sector posted an average gain of 15.3 per cent, according to Morningstar.



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