# Bond Watch: this trade is a 'once-in-a-generation opportunity'

**Sam Benstead** from **interactive investor**

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Sam Benstead breaks down the latest news affecting bond investors.


Welcome to interactive investor's 'Bond Watch' series, covering the latest market and economic news – as well as analysis – that is relevant to bond investors.

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Here's what you need to know this week.

## 'Once-in-a-generation opportunity for big gains'

The end of the interest-rate hiking cycle and a better-than-expected result on inflation could spur a big gain in the prices of long-dated gilts, according to gilt fund manager Ian Williams, of investment group Charteris.

While he is talking up the prospects for his own asset class, it is interesting to note that he is very bullish at the moment, saying that now represents a "once-in-a-generation opportunity for big gains".

"Inflation is yesterday's story and economic indicators are pointing to disinflation. Just look at China, where 80% of the world's manufacturing is and there are falling producer prices and flat CPI inflation," Williams said.

He argues that central banks have set interest rates too loose for too long and have now gone too tight too quickly, and haven't allowed for time lags for policy to take effect. This will create a recession, says Williams.

He also points out that yields on UK gilts are higher than even Greece or Italian bonds, despite the government having better finances. "Gilts stand out in bonds globally," he says.

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Williams is taking advantage of the opportunity by buying long-dated gilts – those set to mature in 40 or 50 years. These are the bonds that are most sensitive to interest rate movements due to their long lifespans. They dropped the most last year when rates rose, and are expected to rise the most when the Bank of England begins cutting interest rates.

"We could see huge capital gains in the long end of the gilt market because these bonds fell so much in 2022. It's the first time I've been positive on long-dated gilts rising in value since 2007," said Williams.

## US and European interest rates rise 0.25%

Interest rates in the US and Europe rose 0.25 percentage points this week, setting the stage for the Bank of England to follow suit next week.

The most influential number came from America, where inflation has fallen to just 3%. Investors now reckon that this could be the last rate hike this year, after Federal Reserve chair Jerome Powell said that he would follow the data regarding the next decision due in September.

Preston Caldwell, chief US economist at Morningstar, said: "We expect the meeting to be the Federal Reserve's final rate hike. Even with economic growth showing no signs (yet) of slowing to the below-trend growth rate usually needed to cause broad-based disinflationary pressure in the economy, inflation is nevertheless showing signs of abating due to relaxing of supply side constraints. As such, we expect the Federal Reserve to pause on rate hikes in its final three meetings of 2023."

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In Europe, the rate hike was "dovish", according to fund manager Fidelity International. Anna Stupnytska, global macro economist at the firm, said that it was expected by markets but the focus from investors was on forward guidance and the expectations for future meetings.

"Overall, the statement moved in the dovish direction, removing the phrase that rates will be brought to restrictive levels, signalling policy is already sufficiently restrictive," she said.



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