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TRANSCRIPT

The Evolving Fixed Income Landscape

*Featuring: **Jay Dermody***, Executive Director, Fixed Income and Multi-Asset Product at MSCI

Interviewer: Joining us today is Jay Dermody, Executive Director from MSCI, who'll discuss the evolution of fixed income and how investors are using these solutions in the global search for yield. Jay, thank you so much for joining us.

Jay: Absolutely, thank you for having me here today.

Interviewer: Yeah, so Jay, let's tell me some of the basics. What are the fixed income instruments that investors seeking yield are using today?

Jay: Absolutely. So the fixed income investment class is very, very diverse. There's lots of different sub-asset types. So that ranges anywhere from treasuries where clients can get exposure to kind of pure interest rate exposure through corporate debt, can get some credit risk, get higher yields from that to securitized products. You know, still a very large instrument type in significant investments there where clients can get higher yields, higher returns. And then for tax advantage strategies, you can use missile bonds in order to gain higher yields in a way that you can pay less taxes due to their nature.

Interviewer: From a historical perspective Jay, how are these instruments evolved and what are some of the challenges seen in accessing and implementing these instruments?

Jay: Absolutely. Well, the fixed income space is very old, right? It goes all the way back to the revolutionary war when the early nation, right, before it was even a nation needed to raise debt in order to fund the war effort. And so there's been this period with treasuries in particular where it evolved over time trying to raise capital for various different government initiatives and enabling clients to gain yield by investing into those securities. Obviously corporate debt also, very old instrument, companies into raising debt since companies existed. But enabling clients to invest in them as in more recent occurrence to the modernization of the bond market of the 1900's for example. And that's continued to evolve over time as additional instruments come online, different types of products, the securitized products base for example, you know, obviously grew very, very large over the last 20 years contributing significantly to the financial crisis, but still nine trillion dollars' worth of outstanding debt in the US bond market is just securitized products. Now as a consequence of that blow-up in the financial crisis, we have these sustained low yield environment, right? Where across most of our political now we're even in negative yields. And so the way that clients can get access to yields has evolved over time as we've needed-- as investors have needed to find yield they've gone to new places. They've gone into different places. And so we're starting to see even increased diversity in the fixed income space now as new products come online or service that need.

Interviewer: And we're also seeing a lot of growth in private debt. I want to talk about that for a moment. Is this growth outpacing education and implementation?

Jay: Absolutely, as I mentioned, the explosion in different types, different types, the private in particular where we have private equity, private real estate and private debt now growing, in order to provide those returns that the public markets aren't providing as much to large investors. And as we have seen these new products come online, there has been a gap in where the transparency is not there compared to the public current parts. The amount of understanding of what the primary drivers are of risk and return for these instruments is unclear. And so even something as simple as kind of bank loans, a very much growing asset class of in the-- investment universe, it can be very hard to get that tight transparency into what really is driving the return profiles associated with these instruments.

Interviewer: And lastly Jay, MSCI serves some of the largest investors globally. I wonder, what are some of the main areas that you're working on with your clients to move the asset class forward?

Jay: Absolutely. So that's one of the things I'm really excited about is the work that we've done enabling our large-- our very kind of large clients in the world, so the large sovereign wealth funds, the large pension funds that we service, to be able to understand how these new products interact with the rest of their portfolio. So providing transparency into their bank loans, into their private instruments, understanding what's driving those pieces and then aligning those risk and return drivers with the rest of the portfolio. So that way they can really have a comprehensive view of risk and return in order to enable them to make better investment decisions.

Interviewer: Well, Jay, thank you so much for your insights into the fixed income landscape and how it's evolving. I have a lot more questions for you, but we'll have to have you back on to discuss your work further. Thank you so much.

Jay: Absolutely, looking forward to that. Thank you.

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