

4 December 2008

Time to lock-in the fixed rate of income from bonds

Today's announcement from the Bank of England to lower the base rate to 2.0% is a welcome boost to the economy, but a further blow for high street savers.

Those bank and building society 12-month bonds offering upwards of 5% will soon be a thing of the past. Anyone looking for a decent rate of interest on their savings needs to start looking elsewhere, and fast.

Recent economic indicators are signalling that the recession will be deeper and longer than previously feared. The best way to fight this will be to keep interest rates lower, for longer. We expect the base rate to fall to 1% in early 2009, and could potentially stay there for the rest of the year.

The low interest rate environment is great news for bond investors. The corporate bond sector is currently offering a yield far in excess of what you could expect to receive from equities.

Within the Henderson Strategic Bond (current yield 8.65%*) and Henderson Preference & Bond (current yield 9.60%*) portfolios we have recently purchased:

British American Tobacco 10-year bond with a yield of 9.5%

Vodafone 10-year bond yielding 8.125%, and

Scottish & Southern Electricity 20-year bond with a yield of 8.37%

Investors should think about increasing their holdings in fixed income assets. Locking-in to these attractive yields now will reward them handsomely over the long term.

John Pattullo, co-manager of the Henderson Strategic Bond and Henderson Preference & Bond funds