

8th January 2009

Bond O'Clock – it's time for bonds

Bond fund manager John Pattullo comments on today's Bank of England's Monetary Policy Committee decision to cut base rate to 1.5%

Today's decision by the Bank of England's Monetary Policy Committee (MPC) to shave a further 0.5% off the base rate means that interest rates in the UK now stand at just 1.5%, a level not seen since the Bank was founded back in 1694. However, we don't think the rate cuts will end here.

There is still further scope for the MPC to copy the US Federal Reserve and take the base rate closer to zero. If this happens, the UK's legion of savers and pensioners will be up in arms about the erosion of their income, just at a time when they need it most.

According to Moneyfacts, more than three-quarters of savings account providers cut their savings interest rates following last month's base rate cut. The expectation is that they will do something similar following this latest downward revision. Some high street savings accounts are now reported to be offering interest of less than 1.0%. Why bother?

So what can savers do to keep generating a consistent level of income on their investments?

Retail inflows into our funds suggest a 'sea change' in investor appetite, and the beginning of a significant trend in favour of fixed income assets. Investors who don't want to miss the boat should consider adjusting their asset allocation in 2009, moving out of the 'no man's land' of cash and into fixed income funds that are offering attractive yields. For example:

- The Henderson Strategic Bond Fund has a current yield of **8.80%***
- The Henderson Preference & Bond Fund has a current yield of **9.70%***

We believe that at present, the 'credit spread' within investment grade is where the real value lies, and our portfolios are well-positioned to capture this. Therefore, investors looking for a more rewarding home for their savings should consider locking-in to the compelling yields currently available, in order to continue to reap the rewards over the long-term.

Given our concerns over excessive supply we remain cautious on the Government bond market. We are using our UCITS III powers to protect against rising Gilt yields through the use of futures. It is still too early in the cycle to be favouring high yield bonds.

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

* Current yield as at 30 November 2008