

# Greg Stock: Now is not the time to be risk averse

By Perpetual Asset Management

30 April 2025



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- Global turmoil has repriced the fixed-income market
- Australian bonds and credit provide opportunities
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“We are seeing a structural increase in inflation,” says Stock. “We are also in a position where there is more credit risk in sovereigns globally.

“Governments have significantly increased spending promises, which need to be funded by extra taxes, or will result in deteriorating credit ratings.

“This has implications. Credit risk is building in government debt in the United States, Australia and other places. There is a huge debt burden that has to be serviced.

“So if you’re investing in longer-term debt, you require a larger-term premium.

“This is especially evident in US Treasuries, and to some extent in Australia,” says Stock, who manages Perpetual Active Fixed Interest Fund.

Over the past month, bond markets have priced in up to four interest rate cuts in Australia.

It’s an overly aggressive view of how many rate cuts are likely, Stock says.

Meanwhile, ratings agency Standard & Poor’s has cautioned both sides of politics that Australia’s AAA credit rating is at risk if big spending policies aren’t properly funded.

### **Opportunities in government bonds**

That market turmoil has provided opportunity for fixed-income investors, says Stock.

“In terms of the semi-government space – which is a big part of the index – it’s a bit cheaper.

“Most states have either been downgraded or are on negative ratings outlook, and the federal government is pushing the envelope.

“We’re starting to allocate more into the government bond space.”

Currently the yield curve is relatively steep – in other words the gap between short and long-term yields is relatively wide, Stock says.

“So you’re getting more return premium for longer-dated bonds in your portfolio, which you weren’t getting previously.

“This means that despite taking on some increased risk, you are getting better returns.”

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Stocks says corporate and bank credit has been performing better. Large companies have been watching debt levels and “treating credit stakeholders appropriately in terms of their capital structure.

“Even though the economy may be subdued, and revenues may struggle to grow, corporate Australia is in a suitable place to address the challenges,” he says.

“In Australia there are many large corporates that are well capitalised, have sensible debt levels and strong business profiles.

“The chance of bankruptcy is remote, and they have committed to investment grade ratings. Their bonds are good investments.”

### **Not a time to be risk-averse**

In short, it's not the time to be risk averse, argues Stock.

Though he cautions investors should look for experienced bond and credit managers who have successfully run a fund through multiple cycles.

“The mantra for us is be ‘risk aware’.

“Be mindful when there's risk and price risk appropriately. But when things are cheap, reach out and invest in them.”

### **About Greg Stock and Perpetual's Active Fixed Interest Fund**

Greg Stock is a Senior Portfolio Manager and Head of Credit Research with Perpetual's Credit and Fixed Income team.

Greg has more than 30 years of experience in investing, including 20 at Perpetual.

Perpetual Active Fixed Income Fund offers investors diversification and risk management via exposure to a hand-picked selection of mainly corporate and government bonds.

The portfolio invests across a wide universe of Australian debt securities. Greg and the team aim to identify quality credit investments while actively managing risk. The fund aims to provide regular income with quarterly distributions.

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