Episode 7: Pension Funds

In this week's podcast, Simon talks about the distortions showing up in bond markets.

Show Notes:

Interest rates are low (:40)

$17TN publicly traded debt has negative yields (:45)

Incredible reflection of price-insensitive buying (:50)

Reflects degree of risk aversion. Prefer the certainly of a loss in bonds rather than own stocks (:57)

But bond investors generally do good analysis (1:20)

Look at energy (1:27)

Perennially out of favor (1:28)

Valuations cheap, yields high (1:40)

American Energy Independence Index yields nearly 7% (1:42)

Investor sentiment poor, long term outlook uncertain (1:48)

But a look at bond yields on biggest companies shows bond investors more relaxed (2:00)

EPD, $63BN market cap, yields 6% while its 2054 bonds yield 3.9% (2:08)

KMI, $46BN mkt cap, has 2098 bonds yielding 5.1% (2:27)

In many cases the bond yields are 1.5% below the dividend yield (3:05)

Must be so much better to own the stock where dividends can grow (3:15)

Interesting piece blog called The Pension Fund Apocalypse by Colin Lloyd (3:27)

He highlights the problems for pension funds by low rates (3:33)

Estimates that $26TN in pension assets earning negative real return on fixed income allocation (3:44)

Problem is that bond demand remains strong (4:13)

US pension funds incredibly raised their fixed income from <25% to 28% last year (4:17)

They should be investing less bonds given returns

But regulations make it hard (4:50)

More broadly, bond yields reflect some risk aversion and inflexible investing regulations (5:28)

Investors in energy company bonds are pretty calm, shown by low yields (6:29)

It's a factor keeping interest rates low (6:58)

All suggests that stocks are cheap, not over the next week or two but over the next 2-5 years (7:16)

Suggested Links:

Bond Buyers Should Buy Pipeline Stocks

<https://sl-advisors.com/bond-buyers-should-buy-pipeline-stocks>

The Pension Fund Apocalypse

https://www.aier.org/article/pension-fund-apocalypse