Transcript

PGIM FIXED INCOME

>> You're listening to All the Credit, a monthly podcast series brought to you by PGIM Fixed Income, an active global fixed income investment manager. And now, your host, Senior Portfolio Manager Mike Collins.

>> Hello, welcome to PGIM Fixed Incomes Inaugural Podcast, "All the Credit". I'm Mike Collins, just one of the many investment professionals at PGIM Fixed Income and I'll be your host of All the Credit, which will be released on the final Tuesday of every month. All the Credit will bring you all things fixed income from macroeconomics, to politics, to trends, and the levels, and shapes of global yield curves, monetary and fiscal policies, inflation or deflation dynamics. And, of course, we'll do deep dives into relative value and risks across all of the global credit markets from investment grade, to high yield, to leveraged loans, emerging market debt, municipal bonds, and even structured products. Our monthly guests will include a variety of investment experts from both within PGIM Fixed Income as well as external guests. Of course, it's always a good idea to kick off an ambitious effort like All the Credit by, well, inviting your boss, especially around bonus time. So, I'm a thrilled to have the head of PGIM Fixed Income and our Chief Investment Officer, Mike Lillard, join me today. Welcome, Mike.

>> Thanks for the invitation, Mike, appreciate it.

>> Yeah, I'm thrilled that have you. But, Mike, before we dive into the current trends you're seeing in the asset management business and discuss your outlook for the bond market in 2020, I'd like to spend just a couple minutes finding out what makes you tick. So, I know you're an MIT guy. Like me, you had a computer science undergraduate degree. You went to grad school there as well and what did you study in grad school?

>> Yeah, I did. I did do computer science there and I also did business there in, you know, in the business school.

>> So, you got an MBA and an MS, or?

>> Yeah, I got an MS in management and an MBA in -- I got an MS in management and a Master's in computer science.

>> All right. Then, how did you segue that kind of quantitative education into the business world? What was your entry into the--

>> So, I ended up coming to Prudential and--

>> Like a lot of us, start your career here.

>> Started here in Prudential and I worked I worked in a group that actually did a lot of the asset allocation for Prudential, thought about, you know, quantitative portfolio construction. I started off, you know, writing some computer programs, you know, things like, you know, option modeling and and asset allocation, and things like that. And, you know, really kind of enjoyed using the computer, you know, background to apply to the financial problems and, you know, the investment decisions that Prudential had to think about it at the time. And then, you know, did that and really kind of got into the bond market at that time and then sort of like, you know, switched over to over the bonds along the way.

>> And you were on our mortgage team, you ran our mortgage team for a while and you actually ran our risk management department.

>> Yeah, they I, actually, the first thing I did is that they let me trade corporate bonds for one year. So, back in 1993 I traded corporate bonds for a year. And again, I was maybe more from the quantitative sort of perspective. So, I started wanting to buy all the portable corporate bonds.

>> Right.

>> Because I was like, the market's undervaluing to convexity and these portable corporate bonds, so I started that. And then, thinking about those convexity things that, you know, along the way that that turned into, you know, me doing more on the mortgage bank security side, you know, and did that in the 2000s. And, you know, enjoyed all that stuff and certainly in the risk role, having more the computer background, a quantitative background was useful.

>> Sure and I think the standard transition in asset management is they take a senior PM and put him as a head of risk management. And you've done the exact opposite. You went from run risk management to effectively being the CIO and head of the entire department.

>> Yeah. So, you know, again, I think everybody takes a different path, you know, in their careers. And, to me, it's fine, you know, something challenging, something fun, and something where you thought you could add value along the way. And, you know, and I have spent my whole career, you know, originally, you know, at Prudential and obviously now at PGIM. But, you know, 32 years at the same company so.

>> Right. And as a leader, so everybody knows, as a chief investment officer. Mike is a great leader, one of the great minds in the business. He really challenges us. If you look up the word devil's advocate in the encyclopedia or Wikipedia, you're going to see Mike's face, right? I mean, he is, I think, the ideal devil's advocate. Make sure he challenges every idea--

>> And when he says devil's advocate I think you really mean annoying, right?

>> That's one way to do it. So, what--

>> Another way to say it--

>> What makes you tick on what you doing weekends for hobbies? I remember 25 years ago, playing basketball or maybe thirty years ago playing basketball with you. You're like a gangly tall, you know, basketball player.

>> Might say that I was gangly but now I'm a little but heavier.

>> For those of you who don't know Mike, Mike is not only a big personality, he's a big guy, right? I mean, tall, you're big guy.

>> Forget it--

>> I don't think you play basketball anymore.

>> It's compensation season. So, you're saying big in the tall sense. I have certainly put on a lot of weight since I started in the business. No question about that as well. So, you know, I guess, you know, what do I do for fun? I mean, I'll tell you one project that I'm doing right now. I've got this old arcade machine that I got at a charity auction and has kind of been one of those things that sits in the corner of your basement. And I'm trying to basically put that thing together, and wire it, and get it set up so we can play the old arcade games from the eighties. And I'm trying to get my kids in the play in the arcade game. So, we'll see how that turns out. I think, you know, my wife would probably appreciate if I spent a little less time with it but I'm having fun with it.

>> Right. I know you're involved in the Special Olympics as well.

>> Yeah, yeah. That stuff, I have two boys that have autism. So, you know, we've been really involved in that part of life and trying to help them and trying to do good things, you know, with respect to it's whether like you said, you mentioned the Special Olympics but just autism in general we've been trying to contribute there.

>> That's great. So, you are a member of the Treasury Borrowing Advisory Committee? You've had the good fortune of being on the committee for five years. So, how does somebody get on that committee? This is the committee that advises the Treasury Department. Folks like Steve Mnuchin, the head of the Treasury on how to issue bonds, and what type of bonds issue, and that type of thing. So how did you get on that committee?

>> Usually they ask you to join it? So, you know, talked with them about it and, you know, and like you said join the committee, you know, five years ago and there's a group of, you know, roughly 15 of us. It varies a little bit as some people, you know, drop off and on. But roughly, you know, 15 people, you know.

>> And how long have you guys made meet?

>> We meet quarterly? So it's a quarter, quarterly you meet right before the treasury refunding, right?

>> And what is the role that the main role of the TBAC or Treasury Borrowing Advisory Committee?

>> It really is what it's at, I mean, we go down and you give Treasury advice. They give us homework assignments and they call them charges. And then, so you'll go down, you'll do a homework assignment, you know, for them and then they put all of those on the Treasury website after they're done. So, you know, basically it's things they're thinking about that they want TBAC's perspective on.

>> So, Mike, in your role on the TBAC, I know you can't comment specifically about the decision-making process at the Treasury et cetera, but the fact is the Treasury Department just made public recently that they are going to issue a twenty-year treasury for the first time in decades, starting as early, potentially, as this May. We just had one of our weekly strategy meetings and we, you know, spent quite a bit of time talking about how the markets might price a twenty-year treasury and how corporate bonds might be priced off a twenty-year treasury. What are some of the conclusions?

>> Yeah, I mean, I think I mean obviously, you know, Treasury, you know, making an announcement that they're going to issue them. We're obviously going have to wait and see where those, you know, when they do that, when the, how those trade. But I think you're going to see the corporate market begin to price and think of twenty-year corporates differently and that they're actually going to look at those corporates that have been in between that 10 and thirty-year, you know, gap, if you will, for years. I think they're going to begin the price those ones that are closer to the twenty-year off that new Treasury, you know, on the run or Treasury reference issue that the Treasury, you know, we'll be creating. And then, I think you're going to see more corporate treasures think about issuing, you know, on that on that part of the curve.

>> Right. And presumably that part of the curve, both in the Treasury and corporate markets, should become more liquid.

>> You would think there'd be more trading and more liquidity there. There's a lot of cash flows there that that, honestly, whether their LDI or liability driven investors or insurance companies don't really have a great way to hedge that part of the curve in terms of buying corporates that would that would trade there. And I do think that it and has the potential to, you know, to invigorate, if you will, and get more trading activity and more new issuance of corporates in that in part of the curve, so.

>> Okay, let's shift to some of the key business issues facing asset managers today, right? There's been all kinds of headlines over the last few years about the big shift from active managers to passive, especially in the equity market, where it's been really extreme. And fixed income, it's happened. Most of the fixed income assets are still inactive but passive managers are clearly gaining market share. How do you think that is going to impact PGIM's Fixed Income business?

>> Yeah, well, I mean, a lot of people, I mean, would think that I would, you know, obviously, you know, Mike make myself part of a big, you know, fixing an active fixed income manager. But I do think it makes sense from an investor's perspective to start with sort of a default option as passive, you know? So, you start with the idea of I want exposure to bonds or I want exposure to stocks. And then, you start with the idea of I'll hire a passive manager in that space at the lowest fee possible. And then, I think you say to yourself, okay, so let's say that that's my default, you know, strategy. Then, the decision to whether to go active were to just stay with that default strategy is really comes down to the individual manager in the individual area. And do you say this manager can add alpha in excess of the fees so that I'll get a higher net return and I trust that manager to control the risk while they're doing that active management? And if you can identify a manager that can add more value for you in terms of alpha less fees, you think that's a superior option to the passive manager, and you think the manager could control the risk and do the risk management part while they're doing it? Then, you go with the active manager And if you can't identify that active manager that you feel comfortable with in that way, then you go with the passive options. So, to me, it's not really active versus passive. It's you know which, you know, can you identify that active manager?

>> Right. And given the fact that our entire $8 billion plus in assets under management of PGIM fixed income are all actively managed, you must believe in your heart of hearts that there can be value derived from the fixed income market on an active basis.

>> Yeah, I do. But maybe more importantly, I think I identified the active manager that I think that could do that. And I think that's the key because, you know, people try to make that arbitrary separation between active and passive but the reality is that we're all managing bonds. And in many cases managing bonds against an index. So, and everybody's trading, and nobody can perfectly replicate in index because there's too many bonds in that index. So, at the end of the day it's, to me, it's outperforming the index, meta fees, and controlling the rest while you're doing it and there's really no -- this active passive thing people like to put labels on it, you know, we manage lots of different strategies in bonds. And many of them

are low risk and many of them are much higher risk. So, to me, thinking about the amount of risk you want to take verse an index is more important than this active/passive label, which quite honestly, is pretty arbitrary.

>> Another hot topic that's gaining momentum over the last even few weeks. One of our big competitors actually just put out a splashy letter talking about what we call ESG or environmental social governance issues. I know a lot of our clients, a lot of people in the industry are talking about taking things like climate change into consideration when you're making investment decisions. What is PGIM's Fixed Income's view on investing in ESG types of strategies?

>> For us, it's about it's about giving clients choices, you know? So--

>> What do you mean by choice?

>> And I guess what I mean there is you want to manage money consistent with the way that the client wants you to manage money. I mean, at the end of day, it's the client's money. And you want to manage money the way that that they want you to do that. And, you know, they may want us to, you know, all the clients are going to want us to pick the right bonds. Of course, from an investment perspective. All the clients want to make sure that we're taking into account ESG characteristics when we're thinking about the bonds. So, if this issuer has elevated ESG concerns, of course, everyone wants to make sure that we're getting compensated for that in terms of the yield or the spread that you get in the in that issuer. So, basically, everybody wants to make sure you're making the right risk return tradeoffs and you're fully integrated ESG thinking in those considerations into the investment decisions. And I'm confident that we're doing that in all the money that we're managing.

>> And my sense of being a credit analyst decades ago here, that's something we've always done to some extent, right? I mean, governance, environmental issues are a part of credit research.

>> Absolutely, absolutely. I mean, it's really fundamental to a fundamental credit analyst job to know everything about their company and obviously, about thinking anything that could impact it. So, there's that part of ESG. Let's call it integrating the risk return characteristics into every investment decision. So, we're doing that and obviously doing that in all of our portfolios. But then, there's the other part of ESG, that I'm going to say means doing good things for the world and actually trying to have a impact in the world. Something from a noneconomic perspective and actually trying to do something positive for the world, something good for society, something good for the world. And whether a client wants to do that or not, or whether they solely just want to maximize, you know, return, you know, per unit of risk, that's like a very that's a client decision.

>> It's a very personal decision.

>> It's very much the client giving that, giving us and we don't want, we don't want to make that decision for the client. We want to give them choices and let them make that decision. So, here's Option A, maximize risk return while thinking about all the economic parts of ESG in the decision, that's Option A. Option B, don't buy some of the industry's companies issuers that many people would say, yeah, these are not, actually, you know, doing things that benefit society or benefit the planet. And again, you know, that's not a pure risk return decision. From our perspective, you will give up some return if you're taking the same risk, you'll give up some return to do that good thing for the world. But that's the choice that we want to give to our clients. So, we want to give them that option and we want to make it the most credible best option that we can.

>> So, how are we going to do that? How're we going to roll that out?

>> So, what we did is we started with, okay, well, you know, making these judgments making the ESG judgments is best done by these credit analysts that are closest to the companies. So, we have, you know, over a hundred fundamental analysts who know their industry as know their companies really well, or know their countries really well, if we're talking about the sovereign, you know, market. Or know their municipal credits well, if we're talking about munis, where if we're talking about structure, know their structured products really well. So, the analysts know the credits the best. And they're going to know the fundamentals of what's going on in those companies in those industries. So, you know, our approach is to get those analysts to put an ESG rating on the issues, you know, that they cover and because we have, you know, analysts in everything that we buy that allows us to have an ESG rating on every single security that we would purchase or put into a client portfolio. So, you know, the analysts are going to be asked to do that. They're in the process of putting that all together now. We want, we have an ESG committee that is going to govern that process. You use the word devil's advocate, that's going to play devil's advocate to the analysts, you know, as they put those ratings on there. So, we have a group on a committee that's going to, you know, ask the analysts to rate those securities. The committee's going to play

devil's advocate to those ratings, we'll end up with readings on all the securities, and that is the building blocks by which the clients can make the choices. So, you know, they could say, you know, the clients could give us a guideline. If it's a single client account, that would say, don't buy any securities that you have an internal rating below x, you know. And then we wouldn't be able to buy the by those securities. We want an average rating of y--

>> And that was ESG ratings.

>> These would be ESG ratings--

>> Fun [inaudibale]--

>> Not credit ratings, right? But they're done by the same analyst which is also, in my mind, the beauty of being able to say that your analysts have fully integrated ESG risks into their fundamental credit rating because those analysts also have to do an ESG rating and withstand scrutiny from a committee that that has the ability to challenge those rates.

>> Okay.

>> So, I think that's the building block, would be the ratings on those securities and then you can design products. You know, if it was the single client advisory, the client will just tell you what those guidelines are. But if it's a comingled fund you could design products that would utilize those readings.

>> Let's move on to the markets, what you and I are both really passionate about as well as the other, you know, hundreds of investment professionals at PGIM Fixed Income. What are your big macro views for 2020. And there's a lot of uncertainty geopolitically in the world, you know, economic growth has generally come down a little bit but central banks have provided stimulus. And what does that mean for global growth this year?

>> Yeah. So, I think, you know, global growth, just moderates and, you know, I think we've got some really long term trends in place on the global growth side that are really not all encouraging as you look at it in the really long term future about growth. Aging demographics in the developed world, you know, aging demographics and China. Maybe many people haven't focused on that but because of the one child policy, China is actually aging now faster than anything we've ever seen.

>> Their workforce is shrinking.

>> Yeah, so it's really--

>> As is in Japan and most of Europe.

>> That's right. And it's really, you know, amazing to think about, you know, a country like China, which is accounted for such a huge part of global GDP growth over the last decade, you know, now aging as fast as it is and what are the implications to that? So, aging is certainly one of the things we think about. High debt loads in many of the countries. You know, a lot of countries added significantly to debt following the 2008 financial crisis and nobody has paid it back. Nobody has paid down debt to GDP. So, you have lots of countries with more debt to GDP with declining demographics and productivity has stubbornly been low. That may have something to do with aging demographics. It's done a little bit better and, you know, in the real short run, in the last six months or so. But over the decade, you know, productivity much lower than it had been, you know, historically in other parts. So, much less dynamic workforce, aging workforce, less gross in workers. Some of the country's going negative growth in the US. You know, you've got a situation where the workforce is going to grow half a percent a year. Not like it grew in the in the 80s and in the 90s. So, you know, less workers that may not be as productive, you know, with higher debt to GDP. You know something? You know, get used to lower, you know, nominal GDP numbers. Inflation has been really, really, you know, below the Fed's target for quite a while now. Clearly, they're trying to get it back to their symmetrical target--

>> Of 2%.

>> Of 2%. So, we'll see if they can actually get to that. But inflation has been on the low side globally. I don't think that's going to change with, you know, the technology that is going on in the world. There is nothing that Amazon is doing in their business model, you know, that is making inflation higher, right? So, you've got, and older people buy less stuff. That's not inflationary. The globalization of the world being able to bring on workers in India and China on to the economic grid, the ability to make things in various parts of the world where labor costs are cheaper, and ship it all around. All of that is deflationary. So, you know, I think you're looking at a period of low inflation moderating growth.

>> So, what does that mean for interest rates? I know we've had a kind of a nonconsensus view for a while on interest rates. I mean, Robert Tipp, our Chief Investment Strategist, has been very vocal about this low for long world for a long time now, talking about interest rates in the developed world are coming down, and that's been spot on. So, it sounds like you're painting a picture of a continuation of that?

>> So, well rates can't go down as much as they've gone down so far, right? So, we're a lot closer to zero than we've been in the past. But yeah, our view is that, you know, that rates can continue to go down a little bit more from where they are. You know, I think the bottom line here is we've got really low economic volatility that can lead to lower interest rate volatility. And, in fact, we've seen that so rates have been less volatile. So, you've got rates that that are less volatile. I think we have a Fed that's on hold here for quite a while and you know you don't, and they're on hold for a while. If you had to guess what the next move would be and it might not be for one, two, three years, we don't know exactly, but the next move, it would probably be an ease, you know. My view would be that the Feds, you know, neutral interest rate, which, if you look at the dots that they put out every quarter is still at 2.5%.

>> Their neutral Fed funds rate.

>> Their neutral Fed funds rate, I'm sorry, you know, that they would they would put out, you know, I'm more at one. So, I think the Fed actually hasn't fully realized how much lower rates need to be in the United States to support economic growth. US rates are still so much higher than they are in Japan and in Germany. So, US rates really stand out, in my mind, as being too high. So, you know, can rates go down a little bit more? Yeah. Will there be less volatility? Yes.

>> Okay. So, what does that mean for the credit markets? Moderate growth, modern inflation, generally stable. and low interest rates. What does that mean for corporate bonds, high yield bonds, et cetera?

>> It's really, really favorable. You know, I think we're an environment where, you know, you've got, you know, 2% GDP growth, you know, maybe down a 1.5 for a really long time here. You also have a Fed and a government policy that is very willing to support growth at any signs of weakness. So, I think the two of those together actually give you a really good backdrop for credit spreads for low defaults. I think companies are struggling with where the growth comes from in the long term, because they see all the same factors that we see. And that makes them more cautious about hiring. More cautious about doing CapX, more cautious about leveraging up. So, everybody's kind of being cautious. And that's actually really good thing if you're a debt investor, because it gives you a tendency to be able to earn your spread without having big spikes on defaults. We don't really see the precursors for a recession. You know, you're always looking for what's the bubble? I mean, we know in 2008, in retrospect, it's pretty clear the bubble was subprime. You know, you can't identify, you know, what that is right now. We don't see, you know, parts of the credit market that look that are big enough to be so, you know, systemic that we just don't see this crisis or any kind of the big systemic risks that we saw like in '08. We see a Fed that's going to be really supportive to growth and an administration and a policy-making body that would be supportive to growth. I think all the central bankers are still trying to avoid another '08. Nobody wants another '08.

>> Investors are too. It's still seems to be fresh in people's minds.

>> It's fresh in people's minds and you see it in places where it's really impacted policy. So, the banking system is incredibly strong because nobody wants a weak banking system where which scared everybody in 2008. So, the regulation has been so strong on the banking system that that's actually a really, you know, strong part of the economic situation, now, that makes recession probabilities lower.

>> Absolutely.

>> So, I would tell you, probability of a recession. I know we all debated it at a desk ed meeting. So, I'll give you my number, you give me yours. I think it's much lower than normal, I think probably recession this year's 5%.

>> Right. Yeah. I would take a little higher number. I just think what typically causes a recession is not something you can forecast or expect.

>> Yeah.

>> That's not our base case but you do have exogenous shocks and it just feels like the propensity for an exogenous shock might be even a little more elevated with some of the geo political risk. So, maybe it's just, maybe I have a 15%.

>> So, I buy that but I also think that the central bankers in the world and the administration order so sensitive to it that they're very likely to reverse and try to counter act it. So, like, I look at the pivot that the Fed made in the fourth quarter of 2018 when we started talking about trade in the stock market going down. Boy, they did 180-degree turn really, really fast. So, you know, I guess if one of those shocks were to hit us, I just don't think you can underestimate how much QE the Fed might, you know, turn on at that moment to try to counteract it. So, you know, that's part of why I would have this low risk of recession. It just feels like moderate growth that everybody is sort of like, disappointed in but get used to it because this is this is what it is.

>> Right. The Fed put is alive and well in your mind for sure.

>> Yeah, I think so. And, you know, obviously they can only drop rates, you know--

>> Six -- cut six more times to get to zero.

>> They could cut six more times to get to zero. They've been really clear that they don't want to go below zero. But I think they've also been clear that they can use all the tools and to quote Draghi, do whatever it takes. And you know, QE has been proven to be a pretty effective way to restore confidence, help risk assets, and get people over confidence issues. And I think it's going to be really, I mean, given a track record of doing that, I think it's going to be pretty effective for them to use in the future. So, I think in the short run this moderate growth, you know, inflation stays contained, rates stay low, credit spreads continue to tighten. That's sort of the views that I think, you know, that we see. And I think the risks are the long term risks and, you know, and they're further in the future. So, you know, but, I mean, the long term risks are, you know, the budget deficit in the United States is completely unsustainable. You know, we're running a budget deficit well into the fours, you know, 11 years into a recovery--

>> In a relatively good environment.

>> In a good environment and the demographics deteriorate and the more of the budget is going to be spent to take care of the aging population. So, if you look at the US government's projections, they just look worse and worse and worse the further you get out in terms of the deficit situation. We're entering a presidential election year, and I got to tell you, I'm not hearing a lot talk about, you know, reducing the budget deficit.

>> Right.

>> In the debates and the discussion that, you know, we're engaging in. So, how bad will the budget deficit get before it becomes a topic?

>> Yeah. It feels like the fiscal hawks in Washington have flown the coop, right? Where are they?

>> Yeah, they don't seem, they're not talking a lot right now.

>> Okay. So, to wrap up, if you had to put all your money in one bond or one fixed income asset class, I mean, what is your what is your single best idea on fixing income?

>> Okay. So, I want to put all the money in one bond our risk management guys would probably say I couldn't really do that. So, I'll give you a couple. I give you a couple. One, as I mentioned, the banking sector. And US money center banks just seem to be a really great place right now. Balance sheets are really strong, conservatively managed. Don't want to repeat 2008 and the regulators continue to watch them like a hawk and the regulation's just really strong. So, that seems to be a great place to be.

>> So, you would be under senior debt there, subordinated debt, even the preferred debt?

>> We're looking at all the different parts of the capital structure there and opportunistically thinking about it. Certainly, you know, from the long run perspective the one that you can sort of just feel really, really confident about is that is that senior debt? But, honestly, they all look attractive to us right now. So, we're involved, as you would say. So, that certainly you know, one place. The other thing is if it's really easy who say who you don't want to be. You don't want to be in Treasuries. You don't want to be, well, we believe rates stay low, and that's a more of a macro call. When you do the relative value call and you think about all the sectors. You don't want to be in the treasury sector, which one, you don't get the spread on, two, everybody needs yield or income, and the third one would be is the Treasury supply is going to be huge in the long run because of these deficits.

>> The funding gap continues to increase.

>> So, you have, you know, the supply is going to go up on the Treasuries, to your point. You mentioned that the Treasury is, you know, going to twenty-year bonds and in part is that thought process of issuance is going to be going up. That should make spreads tightened. So, you don't want to be in the government that, you know, I mentioned a money center sector, money center banks is being someplace where we really like, you know, the relative value. Another place would be in high quality structure products. So--

>> Like asset-backed securities?

>> Yes. So, asset backed securities, you know, I'll go with, you know, AAAC, CMBS, AAACLOs.

>> Commercial mortgage backed securities, collateralized loan obligations, things like that.

>> Things like that where you could get spreads in these asset classes, you know, in the CLOs, 125 over and those CMBs bonds a little bit less, but we really think parts of those markets are truly AAA this time around. Everybody's scared of this sector because of 2008 and their memories of 2008. We actually think this time around it's going to be the banks and those structure products that actually are more resilient if you get one of these shocks, as you were talking about, some exogenous shock that you didn't see. And then, the other things, we see value in high yield in emerging markets. You know, people have bought the lowest risk securities in those markets. We actually see value in some of the higher risk parts of those markets now. So, you know, in our high yield portfolios where overweight CCCs which is not, you know, has not been a typical thing for us to own as much as we do right now. But we really think those sectors have lagged. Last year, a case in point, it is really unusual to see a time period where high yield did so well. But CCCs lagged in that big high yield beta move.

>> Right.

>> And we saw that. So, we think that there are opportunities there. You got to be really choosy on your credits, of course, especially in that part of the market. But we really see we think that there are opportunities there that add value to portfolios.

>> The way I look at it, I think we went through the analysis the other day. There was something like 160 CCC credits. If we can pick the best twenty, we have a good chance at outperforming.

>> Absolutely. Okay, well, Michael Lillard, thank you very much for joining us as our inaugural guest on the All the Credit podcast. The next one will be in February. We're going to have two of our colleagues, Greg Peters and Tom McCartan talk about their recent award winning paper.

>> Thanks a lot, Mike.

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