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Hello and welcome to the Fidelity ETF Exchange, brought to you by Fidelity Investments Canada. Connecting you to the world of investing and helping you stay ahead.

This is the 19th episode of the Fidelity ETF Exchange, and today, co-hosts Étienne Joncas Bouchard and Himesh Patel welcome Cameron Chamberlain to the show. Cam is a Portfolio Strategist here at Fidelity Investments Canada.

Today, Etienne, Himesh and Cam dive into what building blocks to consider when building a fixed-income portfolio, what you should watch out for, and they share their perspectives on the overall fixed-income markets.

Also, Cam, who spends most of his time speaking with financial advisors coast to coast, shares key themes he's been seeing over the past year, and what to look out for in the future. These themes include rising interest rates, and the benefits of portfolio diversification.

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[01:41]

Hello, everyone, and welcome to the Fidelity ETF Exchange. I'm your host Etienne Joncas Bouchard, aka EJB. Joining me today as always is my co-host, Himesh Patel. And today we're also joined by a very special guest, Cameron Chamberlain. Cam is a Portfolio Strategist at Fidelity Canada.

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EJB: In this role, he's a subject-matter expert on portfolio construction and works with advisors across Canada focusing on portfolio analytics, with an emphasis on investment risk.

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EJB: Prior to this role, Cam was an investment analyst in a product research group at fidelity Canada. In that role, he was responsible for product strategy, management and advocacy of Fidelity's Canadian equity and fixed-income funds.

[02:23]

EJB: He first started working at Fidelity in 2014 but joined the team full time in 2017. Cam is also a CFA charter holder and I guess without further ado, Cam welcome to the show.

[02:35]

Cameron Chamberlain: Thank you very much for having me. I'm excited to be here.

[02:39]

EJB: Awesome. Well, we're very glad to have you here. I think it's been a long time coming. And we're actually going to be doing two sessions together, so thank you for that and I'm sure our audience will love it. I'll get back to our subject a little bit later, but before getting into today's topic, quick recap of our last session, as we always do.

[02:58]

EJB: We actually took the time to discuss and dissect Himesh's research paper on equity factors and their performance and corrections and recoveries. So it was quite interesting to discuss, for me, I found, how different 2020 was to a typical recession. Obviously, it was very rapid but from a factor performance standpoint, we had some factors like momentum, which usually do relatively poorly during a correction, did extremely well during the initial drawdown.

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EJB: As for what did well in recoveries, usually dividend, value seemed to pick up some steam, once we've hit a bottom, it almost felt like those only started working when we got positive news around the vaccine around November. I won't go through that whole discussion, but you know, those are two points and key takeaways I had from our last discussion. If you want to listen to the full episode, as always it's available on Fidelity Connects on your favorite podcast app or on fidelity.ca.

[03:55]

EJB: Alright guys, let's dive into today's topic. So, we didn't only bring Cam on because he's a nice guy, we actually brought him on for his expertise in what we're going to be discussing today, which is portfolio construction and optimization. Obviously, we're going to revolve that around ETFs a little bit, so with the help of ETFs. I'll add that to the title.

[04:15]

EJB: And like I said, this is the first of a two-part series we're going to be doing. So, we're going to start with fixed income today and bonds have had a very tumultuous year, to say the least, and it has left many advisors and investors realizing that maybe they weren't as diversified as they thought in their fixed-income sleeve, and that accounts for, if you're investing solely in fixed income, but also for balanced investors, you know, investors who hold funds that hold both equities and fixed-income securities, on a mix of both of those. So, before we pick your brain, Cam, my first question to you, just to give our audience a better feel of what it is you do, who you are, can you tell us what a day in the life of Cam Chamberlain looks like?

[05:02]

Cameron Chamberlain: Absolutely, so I spend my time right now virtually going coast to coast meeting with financial advisors and talking about all topics portfolio-construction related. So, certainly the conversation that we're going to have today revolving around fixed income and the impact on portfolios of all varieties is always a hot topic. We, of course, discuss equity markets, our views, both of our portfolio managers, our asset-allocation team here at fidelity Canada, but also, just in general, we always talk about some concerns that advisors have right now. Rising interest rates, I think, is top of mind, for many, many people across the country.

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Cameron Chamberlain: And so I really spend my time having those detailed, in-depth conversations with our clients, with financial advisors coast to coast, but ultimately I also, I think, spend a fair bit of my time just thinking and trying to read about what is going on in markets today, what could be coming in the future but always with the understanding that of course we can always be wrong.

[06:04]

Cameron Chamberlain: So, as much as we'll talk about, and many people will write about rising interest rates and to some extent as an inevitability in the market, that's certainly true potentially but there's always a chance that we're wrong in the short term, in the medium term, in the long term.

[06:18]

Cameron Chamberlain: So, I also spend a lot of time talking about and to some extent preaching the value of diversification and how it's really important for investors to have diversified portfolios to protect yourself in case you're wrong as well.

[06:31]

EJB: Awesome, and I think that gives a good overview. That's such a great point that you brought up with diversification and doing research on potential outcomes for markets because I think a lot of the work that we do is based on past performance and what happened before, how it might happen in the future. But definitely looking out further ahead of us seems like a good approach going forward, especially in a market that's been going sideways, I guess, for the past month, month and a half, where a lot of the themes, I think, from last November when we're talking about a rotation — we've mentioned it multiple times on this podcast — with growth to value, large caps to small caps, U.S. to ex-U.S., long duration to short duration.

[07:17]

EJB: But let's turn our heads to fixed-income markets right now, and I guess, what are your perspectives on the fixed-income market right now? I'll go with Cam first, but HP, obviously, chime in with what you're seeing as well on your end.

[07:30]

Cameron Chamberlain: Well, I think what's important is not to necessarily think of fixed income as one market because to start off, a lot of the time, certainly when we talk about fixed income, a lot of people think about high-quality investment-grade bonds that are typically more sensitive to changes in yield curves and interest rates. But of course, the conversation differs dramatically as you go across the spectrum looking at fixed income of different durations, so different maturities and of different qualities as well.

Cameron Chamberlain: So, certainly so far this year it's been challenging for those higher-quality investment-grade fixed-income sectors, if you will. Certainly there's been some pressure over the first I'd say five months of the year, so up through the end of May. We've seen yields, especially in the U.S., and in Canada to some extent as well, rising and that's had a negative impact on higher-quality longer-duration fixed income.

[08:25]

Cameron Chamberlain: The caveat, and the reason why I think it's so important to think about, is because the impact has been more muted if you think about shorter-term bonds and, in particular, if you think about shorter-term corporate bonds. Certainly they've been to some extent negatively impacted by rising interest rates as is everyone and a lot of market participants, I won't say everyone, is gearing up for an economic recovery, but certainly the shorter-term corporate bonds have held in a little bit better as they aren't as interest-rate sensitive.

[08:55]

Cameron Chamberlain: And really there are still areas of the fixed-income market that are performing very well. If you look at high-yield bonds, they've returned generally positive returns over the year so far. Floating-rate loans have generated positive returns I generally say for Canadian investors on a hedged basis. So, those markets typically are the largest in the US. If you've taken on currency risk, then you haven't seen positive returns necessarily but, for the most part, if you are looking just at the U.S. market in U.S. dollar terms or in terms hedged to Canadian dollars, still generating positive returns there.

[09:30]

Cameron Chamberlain: So, all is not lost across fixed-income sectors and markets globally across different types of fixed-income markets as well, but certainly for longer-duration investment-grade bonds that most people tend to focus on because it's also written about the most, it has been a somewhat challenging year.

[09:50]

Cameron Chamberlain: Although I will give a caveat in the last couple of weeks in June so far, rates have been coming down, so things have been looking okay for longer- duration bonds in the very, very short term but certainly for most of the year, things have been a little more challenging.

[10:03]

Himesh Patel: Cam, that was a great overview and I love that you said that we shouldn't be looking at fixed income as just one market. And I think that's absolutely 100% true not just for fixed income but other markets as well, but I think especially for fixed income because when investors and advisors think about fixed income, we usually get fixated on the 10-year treasury yield or the short-term treasury rates and we kind of anchor our expectations based on what's happening with those areas in the market and sometimes forget about the other asset classes like high-yield bonds, like floating-rate bonds, which is actually a perfect time to be invested in those asset classes in the current environment.

[10:50]

HP: And one other thing that I'd add to that conversation, like you just mentioned at the end of your comments, with respect to yields going down a little bit more over the last few weeks is I think trying to predict the unpredictable is what's essentially happening right now in fixed income. We've seen yields spike from basically 1% to 1.7% on the 10-year treasury from February to April timeframe and now they're back down to 1.4/1.5 percentage.

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HP: Some of that has been related to the rising inflation expectations and it's actually been decoupled in the past couple of weeks because we've seen some pretty significant CPI and inflation numbers coming through but yields have gone down.

[11:44]

Himesh Patel: Historically, they work in kind of tandem, and they tend to go in the same direction, but now we're sort of in this market where things have decoupled a little bit, and I think that's worrying a lot of investors and advisors as well.

[11:58]

EJB: All great points guys and I really appreciate the conversation with not everything is long-duration investment-grade sovereign bonds. Yes, we tend to have a focus on yields and the yield curve for their impact on those bonds, because the large share of major bond indices that we see worldwide whether that's the FTSE Canada Universe Bond Index, the U.S. Bloomberg Barclays, U.S. Ag, Global Ag., the majority is in government bonds and less in those plus sectors that you guys mentioned, with regards to whether that's high-yield leveraged loans and even investment-grade credits, all of which are doing well, but are also very expensive right now, with spreads extremely tight.

[12:46]

EJB: Now I want to switch the conversation more to portfolio construction and less what we're seeing in the market because yes that's very important, but at the end of the day, what's really important is how you diversify your portfolio and what are some of the tools or ways you can minimize some of the risks in fixed income. So, what are the major risks in fixed income, other than rates, which we already talked about a little bit here from the get go?.

[13:12]

Cameron Chamberlain: Well, I'd say other than rates is a big caveat because, generally speaking, interest-rate sensitivity brings in pretty much the most amount of volatility to fixed-income markets, but certainly you have impacts from credit spreads. You mentioned, generally speaking, spreads are pretty tight right now, although I think the jury's out to some extent as to directions and if there is room to tighten a little bit further from here.

[13:38]

Cameron Chamberlain: I think, certainly from a currency standpoint, I think that's always important anytime we have a conversation around fixed income if you're taking on currency risk as well. So, if you're holding U.S. dollar denominated securities in a Canadian dollar portfolio, you're taking on the volatility of the Canadian US dollar at the same time as taking on other risks associated with those securities and investments.

[14:01]

Cameron Chamberlain: And then, of course, inflation is a big one as well. Especially within fixed-income markets, that can be a fairly big risk and that's one of the reasons why a lot of investors, advisors and, in general, I think market participants are a little bit concerned and focused on inflation so far this year and really have been since we saw the massive undertaking by many central banks to grow and to some extent baloon their balance sheets, as a result of that COVID-19 recession.

[14:34]

Cameron Chamberlain: So, those, I would say, would be the biggest risks. I really focus on interest rates, first and foremost, currencies, credit, of course, and inflation. So those would be the big ones that we generally focus on and think about from a portfolio-construction perspective. And which ones are going to have the biggest impact or maybe you need to focus on more or less than others really depends on the type of portfolio that you're analyzing, and I think we'll talk a little bit more about that today, but the conversation is not just one where you can say everything that we're talking about is necessarily going to apply to every portfolio.

[15:05]

Cameron Chamberlain: There are definitely certainly different conversations that need to be had depending on the risk tolerance that you're taking on and your broad level asset allocation as well.

[15:14]

Himesh Patel: Absolutely, and so, Cam, you've seen a lot of portfolios as you sort of virtually surf coast to coast on zoom every day talking to advisors and understanding what their portfolios look like. What are some of the key themes that you've been seeing over the last six to 12 months?

[15:35]

Cameron Chamberlain: Well, I think one would be many advisors, and rightfully so, they have been fair over the last year, have been worried about rising interest rates and the impact on fixed-income portions of portfolios. And certainly in isolation that is absolutely true. You need to be worried and you need to think about the impact of rising rates on the fixed-income portion of your portfolio. The challenge that I've seen is that some people focus solely on the impact of rates just on the fixed-income portion of their portfolio and they forget about what's happening everywhere else in those same rising-rate environments.

[16:11]

Cameron Chamberlain: So, for example, if you look back to the summer of 2020. The U.S. 10-year, for example, at the end of July, beginning of August was around .5%, so 1% lower than where we are in June of 2021. Now, many people will say well that's been a big problem for us in the fixed-income portions of our portfolios and to be fair, that's been true if you look at that in isolation, but it's important to remember that in periods of slowly but steadily, and I will clarify that, slow and steady rising interest rates, equity markets tend to do very well. And so, if you're a balanced investor where you're maybe split 50/50 between equity markets and fixed income and just again investment-grade long-duration fixed income, you've actually done fairly well even though your fixed-income portion of the portfolio maybe has suffered a little bit and come under pressure. And I think that's one area that a lot of people can take for granted in that rising interest rates... Well, maybe you should be a little concerned about what can happen with fixed income and certainly if you get rising rates and spikes in interest rates in a short period of time, that can shake equity markets. We saw that in February and March of 2021.

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Cameron Chamberlain: But ultimately, as an investor, as a balanced investor, we should all essentially be cheering for rising interest rates because that's generally going to be coupled with an economic recovery and rising equity markets as well. So, if you tell me that over the next year interest rates are going to go up 1%, as long as that's happening in a slower and more methodical way, I think that we're all going to be better off for it, and our investments will be better off for it. Even if the fixed income that we own might come under a little bit of pressure over that time, the equity portion of those more balanced portfolios is there to hold you up and, at the end of the day, you're probably going to see positive returns in that type of environment. If I was going to really put statistics or probabilities on one side or the other, you're still going to likely see positive returns in a rising interest rate environment going forward.

[18:15]

EJB: Yeah. I'd one hundred percent agree with that and I think we tend to look at what's not doing well, but when you have the other, the other side's doing well and that's also why you hold the balance solution. What's not good for balance solution is when correlations start to rise. And then they both work in tandem. But you know that doesn't necessarily happen the majority of the time, but there definitely are cycles where that might arise, and that I think really emphasizes the need for those plus sectors, once again, that you guys mentioned earlier, like high yield and etc, etc.

[18:48]

EJB: One of the common themes, and I'll jump in with stuff that I've heard on my conversations, and you kind of touched on it Cam, is that advisors and investors seem to be always worried about rising rates when they're looking at their fixed income. And historically, that's actually been a big detractor of performance in the fixed-income sleeves of many portfolios that I've looked at is that consistently over time there's always a worry that rates are at the lowest that they've ever been and that eventually they're going to rise. Well guess what, over the past 30 years, it's been consistently going down with some very short periods of spikes.

[19:24]

EJB: I think to when we were starting the year and we're starting to see inflation expectations rise in the U.S. and Canada, globally, a lot of advisors were saying I need to shorten my duration, which was the right call at that time. But also, when I look at the long-term perspectives, we've been in a very strong fixed-income market for the past 30 years. And having that long duration has been a contributor to performance and it's something that you see in a lot of managed solutions, whether that be at Fidelity or at other firms. We tend to be more neutral on duration, or at least maybe a bit longer than most portfolios that I've looked at which have done well so far year to date, so you can't say that that's the wrong thing that happened but I think that's important to consider as well, and the fact that the longer your duration, generally speaking, that's lower correlation to equities as well.

[20:22]

Himesh Patel: Yeah. So, I know we're talking about rising rates a lot, but I think just to hit the point home a little bit more, rising rates is a good thing for fixed income. Over a long-term time period, that's really where the total return of a fixed-income portfolio is driven from. As rates increase over time, your reinvestment rates increase and your total return increases because, as we know, prices don't move that often, especially in fixed income.

[20:51]

Himesh Patel: I think what everybody is concerned about is those short-term spikes in rates. I'll steal an analogy that I heard recently and we got that sort of spike in February to March of this year, and you kind of take the analogy of it's kind of like a vaccine, you take that one shot and you experience that short-term discomfort in fixed income and things are...

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EJB: Hopefully not too many side effects.

[21:21]

Himesh Patel: Hopefully not too many side effects. And things are now looking pretty okay in fixed income, even if we continue to see a gradual rise. I think the market is pretty much expecting gradual rise versus a spike. And so now that we're kind of in this scenario, that's where like we were talking about diversification makes a lot of sense.

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Cameron Chamberlain: I think the point of diversification really rings true to me when you start thinking about the impact of taking ultra short-duration positioning in balanced portfolios to try to protect yourself just from rising rates in the fixed-income side. When you're right, it does look great. Certainly this year, anyone who has been really short duration has generally outperformed.

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Cameron Chamberlain: At the same time, what you have to remember is that, and you mentioned this, the correlation with equity markets that people typically own fixed income for, that lower correlation predominantly comes from duration. So, as soon as you start taking duration away, you're no longer really protecting yourself as much from any equity market volatility or drawdowns in particular I should say. The challenge that that leaves people with at times is if you're wrong for any reason, that you don't have any portion of your portfolio that is going to offset losses from equity markets.

[22:42]

Cameron Chamberlain: If you're short duration, you might get some benefits, certainly, but you won't see the same kind of protection necessarily in most environments from any short-duration fixed income that is getting towards being more of a cash-like substitute where you're going to turn out, generally you would expect to see a lower, more steady returns stream than you would from longer-duration fixed income which, certainly, can be more volatile in isolation but does provide better diversification, generally speaking, to equity portfolios. And that's why it's just so important that if you are looking at balance for equity-tilted portfolios, that you don't necessarily think about the negative impacts of rising interest rates in isolation, that you also consider, as I mentioned earlier, the risk to your portfolio if you're wrong.

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Cameron Chamberlain: If you think that equity markets will rise and you think interest rates will fall, then you can put all of your eggs in one basket and shorten duration to some extent, but at the same time, and protect yourself, and again that's fair, but at the same time, if you're wrong and you get equity market volatility and you have a short-duration position, you're generally not going to be as protected and that positive experience, not necessarily positive but relatively positive experience in a down market, you're probably not going to see to the same extent.

[24:01]

Cameron Chamberlain: So that's just one area, I think, that a lot of investors and advisors need to consider when they are looking at the impact of rising interest rates to say, well, is there a sweet spot maybe where we're not as long duration as these long-duration indices and passive products might be, because they are certainly longer duration and they've become more long-duration-focused over time. And I think that's another challenge to fixed-income markets, but maybe the ultra short term isn't necessarily the only option, there's probably a sweet spot for you somewhere in the middle.

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Cameron Chamberlain: Potentially somewhere that also incorporates some of these other fixed-income sectors like high-yield bonds, floating-rate loans that do protect a little bit better in rising interest rate environments and help balance out that interest rate risk that you're taking on at the same time. So, I think there's a sweet spot there, and it just takes time to try to find what that can be based on your specific risk tolerance, based on the way that you generally build portfolios as an investor or an advisor.

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Cameron Chamberlain: Because I would argue that being really long high quality and being really short term doesn't necessarily give you that outcome that you're are always really desiring in every market scenario. And I just want to make sure people think about the ways that they can be wrong, because anyone who really sits there and tells you they know what's going to happen next, well, to some extent they're lying because if they knew, they probably wouldn't be telling you and they'd be making a whole bunch of money for themselves instead. So, just keep that in mind that there's always a chance that we're wrong. And if you are in this type of environment, there's probably a balance in terms of your duration positioning, your interest-rate sensitivity that you want to strike in your portfolio to help to protect yourself as well.

[25:42]

EJB: Great points. And, I'll bring it back to something you said, and to focus maybe a bit more on the ETF aspect is investing in a pure passive ETF that replicates a bond index, super cheap, super easy. Caveat. Maybe you don't have the full diversification you want because you're taking on too much rate risk, for example. What are some of the other products or other ways or other management styles that you can use or that you've recommended in the past, or at least offered as a consideration to advisors, investors as an alternative to buying something that once again might not be the most efficient allocation to fixed income but that's what we get? If you're buying an index, you get what is issued and you're replicating it and that's that. There's no added portfolio construction around it.

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Cameron Chamberlain: So, I think it depends on the way that you want to manage the fixed-income portion of your portfolio. So, certainly for one-ticket solutions, I would say generally multi-sector type strategies. I know we have a few available at Fidelity both in the ETF side, and I also deal in the fund world, so on the fund side as well, but certainly from an ETF perspective, there are a growing number of multi-sector, multi-asset class strategies that you can use instead that will diversify the fixed income that you use in your portfolio for you. So that instead of holding a variety of different ETFs or different products to try to get the diversification yourself, you can trust an active manager perhaps or a systematic strategy to balance out some of those risks for you and asset allocate on your behalf.

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Cameron Chamberlain: They're not necessarily going to be as cheap as what you'd see from those generally speaking longer-duration passive ETFs, so that's always a consideration and, rightly so, you can focus on fees, but I always say you have to focus on fees in connection with the return expectations that you have for those strategies. And if you trust an active manager who's shown an ability to tactically allocate across different fixed-income sectors or a systematic strategy that is set up in a way that can do that as well, then that can justify a slightly higher fee, even in an ultra fee-conscious world, especially when it comes to fixed-income markets. So, I do think first and foremost, I talk a lot about with investors that are looking for the one-off, one-ticket fixed-income solution, consider a multi-sector strategy.

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Cameron Chamberlain: Don't only say it has to be cheap and it has to be passive because you do take on interest-rate risk and potentially more than you're comfortable with. And on the other hand, if you're looking at building out the fixed-income portion of a portfolio yourself using different more asset class-focused solutions, well then, maybe the option isn't necessarily to say, okay well, I'm only going to own that long-duration high-quality fixed income, maybe you need to find a way that you can systematically optimize what that exposure looks like.

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Cameron Chamberlain: Perhaps there are other ETFs that you want to pair with those passive longer-duration strategies. One that I've spoken about a lot with clients that really want to kind of manage the exposure themselves are short-term corporate bond solutions that help at least manage and mitigate some of the interest-rate sensitivity so that you maybe aren't quite as long duration, but without making a full substitute. So, paring strategies as well.

[29:15]

Cameron Chamberlain: And then, certainly, if you're looking at other parts of the market: high yield, floating-rate loans, those can occasionally result in a slightly different risk tolerance or impacts on your risk tolerance and risk profile for a portfolio, depending on the sizing of some of those positions as well, so that's always a key area to look at and think about. It's not necessarily you have to be in all in one place all at one time. If you blend some of these approaches together, which either most of our clients will want to do themselves, or perhaps use that multi-sector manager, really gives you an opportunity to be a little bit more balanced in the way that you build the fixed-income portion of your portfolio, especially, and again, I'll caveat these comments to say, for balanced and equity-tilted portfolios, because the conversation does change dramatically if you're looking at more conservative fixed income-oriented portfolios where you have little to no equity exposure, then the conversation and the risks do change dramatically because you no longer have to worry about that correlation with equity markets.

[30:13]

EJB: Great, that's awesome. I really like those comments, and I think you hit the nail on the head with regards to return and risk expectations because my biggest pet peeve, I think, over the past month and a half or two months, and we've seen from an industry standpoint, fixed-income ETF flows have slowed substantially, so obviously money's flowing to equities like probably it should be from a general basis. If you have the flexibility in your portfolio and you're willing to take on a bit more risk, equities are likely to do better going forward just given the environment that we're in. That being said, what is quite alarming, and my pet peeve that I was going to get to, is seeing fixed income being turned into something that does not even look like fixed income anymore. And whether that means selling all your high-quality type bonds for very low quality or looking to other asset classes like preferred shares, for example, which are completely replacing certain sleeves of fixed income, at one point the level of risk in a portfolio might not increase in the short term, but definitely in the long term because there's a lot more and other risks involved when we're making those changes.

[31:34]

EJB: So, be careful if you're looking to increase the Alpha or the return profile of your fixed income, so not to impact the risk profile so much of your fixed-income sleeve. I don't know if you guys have seen that a little bit, but it's come up quite a bit in my conversations recently.

[31:52]

Himesh Patel: Yeah, it's quite a theme recently, especially just because... I think, one of the driving factors behind that is, we talked about the correlations between stocks and bonds being negative, which they historically have been, but if you look back to around 2015, that negative correlation was around 60%.That has slowly and gradually increased or decreased, I should say, to about negative 30% in today's environment.

[32:20]

Himesh Patel: So, I think a lot of people are just making those moves based on those short-term sort of spikes in the correlation between stocks and bonds going slightly positive or going towards zero. But this whole conversation really just alludes to the fact that you need to be active with your fixed income and you need to take that diversified exposure in the overall portfolio context, not just fixed income as the asset class in itself.

And when you think about assets moving to other asset classes like preferred shares in higher-risk assets, I think that really just makes

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EJB: High-dividend equities.

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Himesh Patel: High-dividend equities, as the bond proxies we would call them. I think it really just makes the case for that multi-sector fixed-income approach even more attractive because you still get that diversification, you can still attract some level of excess return in alpha while still mitigating risk. And I think in an overall portfolio that makes complete sense.

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Cameron Chamberlain: I always tell our clients when we're having conversations around those types of decisions that are being potentially considered moving to those higher-risk Income-generating parts of the market, whether they're equities, traditional fixed-income preferred shares, wherever it may be, that the number one risk driver, generally speaking, in diversified portfolios is going to be your equity market exposure.

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Cameron Chamberlain: So, rather than thinking about your portfolio in an equity versus fixed-income world, think about your exposure a little bit more on a risk on versus risk off world. So, think about your exposure more on a risk on/risk off world. And if you do that and what you find is that ultimately any equity exposure, any of those more equity market-sensitive parts of whether they're fixed-income plus sectors or other asset classes, those parts of the market are generally all going to behave in times of stress in a very similar way.

[34:21]

Cameron Chamberlain: And so, when you make these broad, what really are broad asset-allocation moves, they may seem subtle at the time, they have can have a dramatic impact on a portfolio in those times of the highest markets stress. And that's what you really need to worry about is most people aren't sitting back saying fixed income needs to be my biggest return driver. Most people see fixed income as the insurance in their portfolio. And if that's the case, well, it may be attractive to try to go and earn an additional 1% or 2% in a return or income generation in the short term.

[34:54]

Cameron Chamberlain: It's not going to be worth it if you do get out of just general market volatility, a drawdown of a significant magnitude in equity markets that is maybe a little bit more sustained where that is really going to be where the fixed-income portion of your portfolio is generally going to make you money. Not by necessarily making you a ton of money, but by saving you a lot of money. And I think that's really important and touches on, and I love that you focus so much, both of you, on your comments around risk when having these conversations because that really is what I think about when we're having these multi-asset class types of conversations and, in particular, with the purpose of fixed income in most client portfolios.

[35:35]

EJB: It's crazy how short, how our short-term memory works as market participants and how we've already forgotten how last March literally everything you held in your portfolio, if it wasn't cash, short-term treasuries or long-term bonds, it was down a lot. And the things I'm seeing now to go pick up 1% extra yield, not taking into consideration any crisis event, it's a little bit alarming and I think that's why hopefully we're here. And Cam, you doing your job that you do at Fidelity, working with advisors and investors, reminding them that there are these risks in the market, I think, is crucial as we move forward, not only for the ETF industry, but also for the fund industry.

[36:20]

EJB: So, with that, we're at time. Cam do you have any final comments on this episode, this subject?

[36:28]

Cameron Chamberlain: Yeah, the last comment that I'll make is for those more conservatively invested individuals where you're looking at portfolios that don't have the equity exposure, you're not looking for diversification. And in those cases, really you need to be looking and strongly considering those shorter-term, less interest rate- sensitive fixed-income securities because that will be the largest driver of volatility in those portfolios. You don't have equity market exposure. You don't have very much of it.

Then really interest rates are going to take on a life of their own and they're really going to impact your portfolio from a return standpoint fairly significantly.

[37:06]

Cameron Chamberlain: So, a lot of the comments we've been focusing on today are really meant more for more balanced and more equity-tilted portfolios, certainly from a more conservative investor's perspective, looking at shorter-duration exposure, higher-quality fixed income as well really works in a much different way for you than it would in a more balanced portfolio.

[37:30]

Cameron Chamberlain: So, I would just say to everyone listening, think long and hard about the asset allocation of your portfolio in its entirety when you're worried about or thinking about the fixed-income portion of your portfolio because the impact is going to be dramatically different depending on what the rest of your portfolio looks like.

[37:49]

EJB: Right. Great close, Cam. Love that. HP, Cam, thank you so much for joining me today. I hope everyone enjoyed the episode and soon we're going to be coming out with the second of this series and we're going to be focusing a bit more on equities, so keep your eyes open and your ears open for that future episode. Thank you everyone. Have a great day.

Ending: [38:13]

Voiceover:

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