

Is the Treasury bubble bursting? Fund managers selling treasury bonds & buying corporate debt.

By [Global Research](#)

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In an important shift, top bond fund managers are selling some of their treasury bonds and buying corporate debt.

As Market Watch [notes](#):

“Investment-grade credit is very attractive,” said Gregory Davis, head of bond indexing at Vanguard and portfolio manager for its Long-Term Bond Index Fund....

For corporate bonds, “a lot of bad news is priced in, including defaults and downgrades,” Davis said.

Top-performing fund managers are selling or paring their holdings of U.S. Treasuries, one of last year’s best-performing assets....

Meanwhile, other government programs to bail out the credit markets, say by guaranteeing bank debt, will make Treasuries less attractive, managers say.

“As policy maneuvers are implemented and make the way through the system, prudent investment managers are going to be reducing their risk-free exposure and going more towards risk products,” meaning anything besides Treasuries, said Steve Rodosky, manager of PIMCO Long Duration Total Return Fund....

One strategy that successful managers say has some legs is to buy debt that the government is also buying.

That strategy lends itself to holding mortgage-backed securities and debt sold by the big housing finance agencies including Fannie Mae, Ginnie Mae and the Federal Home Loan Banks....

Companies that are explicitly benefiting from policy actions are likely to have the best opportunities, said Rodosky

Debt sold by banks that is guaranteed by the Federal Deposit Insurance Corp. should do well, he said.

Also, debt sold by firms that have issued FDIC-backed notes but that trade on their own rating have good potential relative to the risk involved, he said.

Still, “there are going to be some losers in this process, despite the government

guarantees," he said. Several institutions are likely to be consolidated.

"Not every bond out there is money good," he said.

Bond managers expressed the most distaste for Treasuries, which helped several avoid the market's pitfalls last year. They expect Treasury bond prices to fall, pushing yields up, by the same policies that help other assets. The government is incurring a lot of debt buying other securities and propping up financial markets, let alone the massive economic stimulus package expected to be approved in the next month or so.

The actions of the top fund managers tend to prove that [the treasury bubble is bursting](#).

Their statements are also in line with Marc Faber's comments that corporate bonds are oversold, and that not every company will fail in this economic crisis. Faber has said for a couple of months that there are very good deals to be had in buying corporate debt, if you know what you're doing.

Finally, they appear to be following Bill Gross's [advice](#) to buy early what the government is going to buy later.

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