Thornburg's Sparkman Lengthens Maturities And Leans International Now

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Adam Sparkman, client portfolio manager at Thornburg, part of the team running TBLD, the Thornburg Income Builder Opportunity Trust. Read the Q&A below as Adam says that current market conditions favor the flexibility of a multi-asset approach, noting that "It's a different menu within fixed income entering 2024 than it was a couple of years ago." The changes in the rate environment have allowed the firm to increase credit quality. "We're taking less credit risk and we're looking to add a bit of duration," Sparkman says. On the equity side of things, Sparkman says international investments, especially in Europe, are trading at relative discounts, making them particularly attractive now.

Adam Sparkman

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Adam Sparkman, portfolio manager at Thornburg is here, we're talking about using a multi-asset strategy in current market conditions and this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. But today it's actually pointing us in a lot of directions, because we're chatting with Adam Sparkman, he's client portfolio manager at Thornburg and part of the team that runs TBLD, the Thornburg Income Builder Opportunities Trust, that is a multi-asset strategy and we'll talk about that. You can learn more about the fund and Adam and the firm by going to Thornburg.com. If you want to learn more about closed-end funds, interval funds, and business-development companies generally go to AICAlliance.org, the website for the Active Investment Company Alliance. Adam Sparkman, welcome to The NAVigator.

ADAM SPARKMAN: Thanks Chuck, it's great to be here.

CHUCK JAFFE: So while I want to go in the multi directions of multi-asset, let's start with a quick take from you on where closed-end funds are, the closed-end fund market and the pluses and minuses that we're seeing here in these conditions?

ADAM SPARKMAN: Sure. The Fed's rapid pace of rate hikes really since March of last year has certainly been a challenging environment for closed-ends broadly, but the increasingly consensus view is that we're nearing the end of the Fed hiking cycle, so I'm actually really hopeful that we may now begin to emerge from this prolonged period of what's really been extreme discounts in closed-end funds. If you look at the market in aggregate, the average fund was trading at more than an 11% discount at the end of October, and when I look at Morningstar data, that's actually the widest discount level for closed-end funds, at least for the past 10 years, and it's probably the widest level since the 2008 financial crisis. So typically when we've seen this level of broad-based discounts in the closed-end space, it's generally been more reflective of a real shock to the market like the Financial Crisis or Covid, but now that we have more clarity around rates and inflation, really than even we did a couple months ago, I do think investors will start to get more comfortable with the opportunity to deploy money into these funds. I'm certainly not making a call that discounts begin to dramatically narrow tomorrow or anything like that, but for investors who have a medium to long-term horizon for these products, I think you can really buy a lot of high quality closed-end funds at what we feel are really bargain level prices right now. You can lock in an enhanced level of income, and I think there's also that increased capital appreciation potential if and when the discounts do begin to mean revert.

CHUCK JAFFE: And jumping in, isn't that also part of the natural process? Thornburg Income Builder Opportunities Trust is trading at a nice discount and has an 8%+ yield. Where the Fed is now hinting that yields are going to be coming down, the yields on the closed-end funds probably aren't, so buy them at a discount while the discount's still available there, right?

ADAM SPARKMAN: Absolutely. When these funds do tend to snap back, it can happen pretty quickly, so I do think that the opportunity right now is really attractive to dive in. For investors who might be a little bit more risk-averse and worried about the environment, these funds often use leverage and that leverage can be really enhancing to the yield, but I don't think that you necessarily have to pick a highly levered fund or really extend yourself out on a credit spectrum right now either to take advantage of the opportunity in this environment. You mentioned our fund TBLD, the Thornburg Income Builder Opportunities Trust, it's a multi-asset closed-end fund, we are providing that 8%+ yield right now, and that's with no leverage because of the rate environment, and also a really attractive discount to the NAV.

CHUCK JAFFE: So now let's turn it from what we see on closed-end funds generally to what we see with multi-asset. We are living in some very interesting market times, what for you is the benefit of multi-asset first? And then we'll get into which assets you want to flex into and out of.

ADAM SPARKMAN: Yeah, I think that multi-asset flexibility makes a lot of sense in an environment where we do still have a lot of uncertainty. Inflation and rates are certainly coming down, but there's still uncertainty around soft landing, what the economy looks like in 2024. It's common to see income strategies in closed-ends that often take outsized risks in fixed income or hunting in a really small pool of what tends to be mature cyclical equities in order to achieve a high dividend. But what we realized when we launched the fund in July of 2021 is that we could potentially provide a high-income solution using a more diverse set of tools that allowed us that broad flexibility, and we really pull three levers today, global dividend paying stocks, diversifying fixed income, as well as an options overlay. And I think when you take something like an options overlay and you pair it with a global equity strategy, it can be a really strong ballast and a volatility dampener during market selloffs like the one that we saw in 2022. Additionally, I think it allows you to broaden the opportunity set within equities a bit as well, because you can create an income stream by writing an option on your stocks, and you can also buy some stocks that are trading at attractive levels that may not pay a high enough dividend to typically fit into this type of strategy. So that options lever really allows us to broaden out our investment universe and flex into really where we see the best relative value opportunity across equities as well as fixed income.

CHUCK JAFFE: Well, I can swing at a softball when I see it thrown right down the middle. What are the places where you see those opportunities right now?

ADAM SPARKMAN: Sure, thanks for that setup, Chuck. One area we're positioned significantly overweight is international equities. Part of the reason for that is that international markets tend to have a much higher dividend yield than US stocks, even really for companies that are very comparable and are operating in very similar environments with similar growth rates to their US counterparts. But really the other part of it is that international assets, much like closed-end funds, we believe are trading at significant discounts today and we've really looked to take advantage over the past couple of years and as we enter 2024. If you look specifically at a market like Europe, right now it's trading at about 12X forward-looking earnings versus a 19X multiple for the S&P 500, that's about a 35% discount. whereas the longer term PE discount between the US and Europe over the past 20 years has typically been more like 15-20%. We're bottom-up investors, we're not making a broad macro call and buying everything in Europe, but that relative discount does provide a lot of really attractive opportunities in Europe as well as some other international markets. When we launched the fund in July 2021 on the fixed-income side, it was really challenging to find compelling yields, interest rates and credit spreads were both at historical lows, and we really had to lean into our credit expertise and focus on credit stories and really lean in to more high exposure to floating-rate product. But over the past year and a half, core rates as we talked about has risen from ostensibly zero percent to over 5% today, and credit spreads have widened out a bit as well. So it's really a different menu within fixed income entering 2024 than it was a couple years ago, and with that in mind we've been able to increase the quality of the portfolio on the fixed-income side, we're taking less credit risk, and we're also looking to add a bit of duration. We think that makes a lot of sense given the current landscape.

CHUCK JAFFE: You talked about going further out in maturities, presumably you were thinking about that before we got the Fed announcement. Does the Fed announcement speed things up, change the way you look at that?

ADAM SPARKMAN: Yeah, it's definitely around the margins. Really we started thinking about that duration play more in October as we really saw yields rising up, so we were able to extend duration out a bit in October. Right now we're kind of in wait and see mode with where duration will go in 2024.

CHUCK JAFFE: Adam, we appreciate the time that you've taken with us now, we've come to the end of our duration on The NAVigator today. I look forward to chatting with you again in 2024, thanks so much for joining me.

ADAM SPARKMAN: Thanks so much, Chuck.

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