Allspring's de Silva Says U.S. Still Has The World's Best Income Opportunities

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Harin de Silva, manager of the Allspring Global Dividend Opportunity fund. Read the Q&A below as Harin says that the U.S. markets have remained among the best income-generating investment opportunities when it comes to the yields being generated relative to the risks being taken. While he favors a global allocation, de Silva noted that the fund has a surprising tilt toward the United States, helped along by the low volatility levels due to the strength of the U.S. economy. Globally, however, de Silva notes that the big surprise in recent markets has been how the bad news and headlines from Ukraine and Israel, along with troubles at both the Suez and Panama Canal, have not created uncertainty in the market and convinced investors to stop taking on risk.

Harin de Silva

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

CHUCK JAFFE: Harin de Silva, manager of the Allspring Global Dividend fund is here, we're talking international income investing now on 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, which is a unique industry organization representing 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. And today it's pointing us in every direction around the world, because we are looking at global investing with Harin de Silva, he's portfolio manager on the Systematic Edge team at Allspring Global Investments, where he runs the Allspring Global Dividend Opportunity Fund, that's ticker symbol EOD. But he is also involved in the firm's domestic and global long-short equity funds, which means that he's not just what you call beta 1.0, in other words it's not all tied to the market and stock selections because he can buy stocks, bonds, and options. You can learn more about the firm and about Harin at AllspringGlobal.com. Harin de Silva, welcome to The NAVigator.

HARIN DE SILVA: Thanks for having me on, pleasure to be here.

CHUCK JAFFE: You can go anywhere in the world with your investments, you can mix equity, and fixed income and options there. We've got a global economy where I think everyone thought that the Fed, the US would be the first central bank to start cutting rates, but at this point it may be the last one to be cutting rates. So in this environment, what looks better to you and where do you want to be positioned as an income investor?

HARIN DE SILVA: It depends which strategy you're relying on, right? So if I think about the covered-call component we have in our strategy, the US is actually very attractive from the standpoint of the volatility of the markets being very, very low, so you've been able to capture what's referred to as the volatility risk premium, and that's been a great component of value added in the portfolio. If you look at equity securities in general, we follow very much a barbell strategy where we buy some stocks with no dividends and some stocks with really high dividends, because there's a sort of J-shaped relationship between equity and yield and return, and so that results in the portfolio having a pretty big weight in North America. I know a lot of times people think that the other countries, whether it's EM or Europe, have a higher dividend yield, but we find that within the US itself there's a big opportunity if you're willing to have this barbelled yield structure. And the other area that we're exploiting in our portfolio is lower grade bonds as well as convertibles, so it's really the multi-pronged approach results surprisingly in a tilt to the US in the portfolio.

CHUCK JAFFE: It is surprising, but again a lot of the reason that you have that tilt is because of the options side of the strategy. When it comes to income investing generally, does the strong dollar factor in, are there things that you are looking at that are also perhaps helping the US? Or is the fact that, by the way if the Fed is the last central bank to begin cutting, well, our rates will be higher for longer here?

HARIN DE SILVA: Yeah, the US, that's one reason. The other is that the volatility is so low in the US, right? Because the US economy is the one that surprised everybody in terms of its strength, and thus resulted in this incredibly low level of market volatility that they've experienced in the last three months. If you look at the first half of this year, the market was basically straight up. You look at the graph and you can't really believe how strong it was, and that basically means that there's been a very low level of risk in the marketplace. Now the second half of the second quarter of this year, the first three or four days of trading here, we've seen a little more volatility, and maybe that's going to change and maybe that's an inflection point that we're going through right now, but in terms of risk levels and yield for you to risk, the US has been one of the best places to be.

CHUCK JAFFE: How much has the changing rate environment changed what you have to do or want to do? And by that I mean, last year the mantra for a lot of people was T-Bills and chill, you can just go off and get a decent return on T-Bills and you didn't have to worry that much. As an income investor, you didn't have to do much to see your income improve, but your job is not to go like, "Let's go get you the T-Bill return," your job is to do a lot better. How much easier or harder did your job become when the rate cycle changed so dramatically?

HARIN DE SILVA: It became a lot harder, right? For two reasons, first is that at the time the rate cycle changed the stock market went up, so the average yield on stocks fell quite dramatically, volatility fell which means we were getting less premium from selling calls, and the credit spread narrowed. So I would say exceeding Bills now is a lot harder than it was a year ago, even two years ago, because all the levers have tightened, so I would say the value added from active management is going to be smaller, but it also allows you an opportunity to distinguish yourself versus people who are just making simple asset tilts.

CHUCK JAFFE: Does that mean that the opportunity to shine is really going to show up once we start seeing rate cuts go into effect?

HARIN DE SILVA: I think it will. There's that old comment from Warren Buffet, right? Where he said when the water goes out you can see who's naked; so I think this environment really highlights which funds are using truly active management to exceed the existing risk-free rate.

CHUCK JAFFE: That being the case, how much of a change in strategy do you expect to do? I mean, if you and I were to talk again in six months or a year, how much would your portfolio look dramatically different in construction?

HARIN DE SILVA: What will change dramatically is the underlying stocks in the portfolio, this is a fairly concentrated portfolio, there's 60 to 80 stocks. What stocks are attractive are going to change dramatically over the next year just because the interest rate sensitivity of the stocks change and the valuations in the market have changed in terms of the kind of rotation that you're seeing right now. What won't change is we have about an 80-20 mix of fixed income to equities, I don't see that changing because we're not looking at a huge change in rates over the next year. I think it's going to be fairly static over the next year, certainly less than was expected at the start of the year because inflation continues to be strong in the US as increasing hesitancy to cut rates, and we are seeing this incredible amount of liquidity that seems to be coming from all the stimulus money, right? You'd have thought the stimulus money would have disappeared by now, but when you inject something like 26% of GDP into people's pockets, that creates a huge amount of liquidity in the market, and that's why we've seen this incredible run in the market and incredible shrinking of risk premiums over the last three or four years.

CHUCK JAFFE: I talk with a fair number of international investors, and of course we've got a couple of situations going on right now that can affect international markets certainly. We have two wars going on around the world most notably, but we also have some things like even here, the ship hitting the span in Baltimore might not be quite the same as the ship getting stuck in the Suez Canal, but it's going to have some implications. For you as an income investor, are those things that you're watching and they're headlines but they don't really do much of anything? I mean, until it winds up changing the rate environment, headlines are something that you watch but they're not something you invest towards?

HARIN DE SILVA: We do keep track of that, but it's more the extent to which the news affects the companies we have in the portfolio. So what's surprising, Chuck, is the level at which these macro events have an effect on the markets, right? That resilience frankly has surprised me, because you wouldn't think we would see what we're seeing now just in terms of improving fundamentals given you've got the biggest land war in Europe since World War II, you've got what's going on in Israel, you have tremendous problems in both the Suez Canal and the Panama Canal, so all those things are contributing to high inflation, but you're not seeing that materialize in terms of uncertainty in the market and a drop in the risk-bearing ability of individuals. People are continually engaging in buying high-risk or riskier securities, and that's why you're seeing narrow credit spreads. So it's really an unusual environment now, and I don't see that changing for the next few years.

CHUCK JAFFE: And you've been doing your best to take advantage of that environment and we've really benefited from hearing your take on it. Harin de Silva, thanks so much for joining me on The NAVigator.

HARIN DE SILVA: Thanks for having me on, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, I am Chuck Jaffe, and you can learn all about my hour-long weekday podcast by checking it out at MoneyLifeShow.com or by searching for it on your favorite podcast app. To learn more about closed-end funds, interval funds, and business-development companies check out AICAlliance.org, that's the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Harin de Silva, portfolio manager at the Allspring Global Dividend Opportunity fund, that's ticker EOD. He's also a co-manager for the firm's domestic and global long-short equity funds, learn more about him, the firm, and the funds at AllspringGlobal.com. The NAVigator podcast is new for you every Friday, make sure you don't miss an episode by subscribing or following along on your favorite podcast app. Please leave a review and tell your friends if you like us, because that stuff really helps. We'll be back next week, and until then, happy investing.

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