

## 'Interview with Stewart Cowley April 2025'

By Stewart Cowley

### Newton Global Fixed Income Strategy

*Over-weight long-dated bonds in the US*

**Interviewer:** Stewart Cowley, you are known as the grandfather of the bond markets. How do you feel about that?

**Cowley:** Well it's better than 'That old, bald, goofy Georgie who sits in the corner talking to himself' which is what I usually get.

**Interviewer:** Your global bond fund worth USD1.1trn (£500,000 at current exchange rates) is one of the oldest in the industry. Looking back you've had some ups and downs.

**Cowley:** Mainly downs to be honest.

**Interviewer:** Mainly downs for the past fifteen years, but what has surprised you most in the past 38 years?

**Cowley:** I think the most surprising thing is ending up living with my parents-in-law after the value of my house wasn't sufficient to cover the value of my interest-only mortgage when it matured three weeks ago and having to go and work as a shelf stacker at Homebase, starting on Monday.

**Interviewer:** Leaving that aside, you've seen it all haven't you.

**Cowley:** Oh yes, I have. The 1987 stock market crash, the early-1990's housing crash, the Russian Debt Crisis, the Dot.com Debacle, the 2007 Credit Crunch, The Western Government Funding Crisis, The Global Food Panic, The Reindustrialisation of Europe, The Collapse of the Internet and, of course, President Chelsea Clinton's break-up of the United States into constituent countries last year - none of them could have been predicted from where I started in 1987.

**Interviewer:** Indeed. Nobody could really have foreseen all of that. But are there any skills that you wished you could have had now that you didn't have then?

**Cowley:** Well, I wish I was taught how to milk a cow when I was at school which is something I still struggle with on a daily basis. For poor Betsy, our Fresian penned up in our back garden in Putney, it really is an eye-watering experience for her every morning. Thank goodness we have seen the benefits of Genetic Engineering; crossing a sheep with a crab to create the "Self-Shearing Sheep" has saved a lot of heartache in the Cowley household I can tell you.

**Interviewer:** But surely, as someone who worked within finance, you made provisions for your retirement? You worked at a company with a generous pension scheme and, frankly, earned more than the average living wage for most of your career so you must be alright compared to many people?

**Cowley:** I suppose I am. But I am a product of the Baby Boom generation and we have a tendency to do the same thing at the same time. We all bought Trophy Houses and expected to sell them at a vast profit to fund our old age and didn't really think about pensions back then. Our home WAS our pension so we spent the rest on holidays and energy-consuming technology. The problem was we all tried to sell our homes at the same time and because the population declined, nobody really wanted to be rattling around enormous, expensive-to-heat -and- light houses in London, which is now pretty much deserted after the floods, so they are pretty much worthless now. You can't get a bungalow on high ground in the temperate parts of Scotland for love nor money these days

**Interviewer:** But at least you have the comfort of your family?

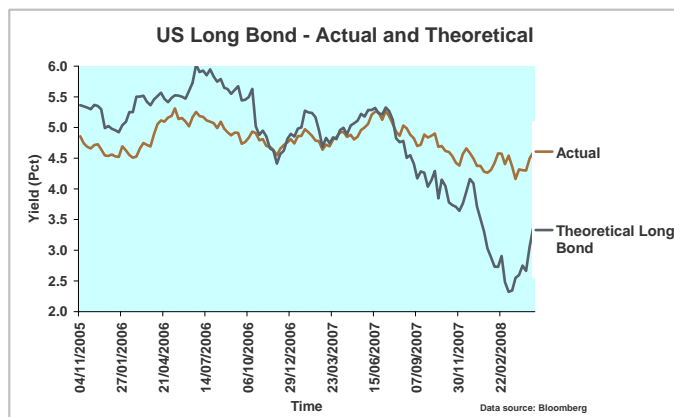
**Cowley:** I think the word should be plural – families. There are four of them living in our house now mainly people we met through our children's school career. Speaking of which my son works as a foreman in a Chinese television factory in the midlands whilst my daughters live in New Zealand and Brazil now etc., etc.

**Back to the present....**

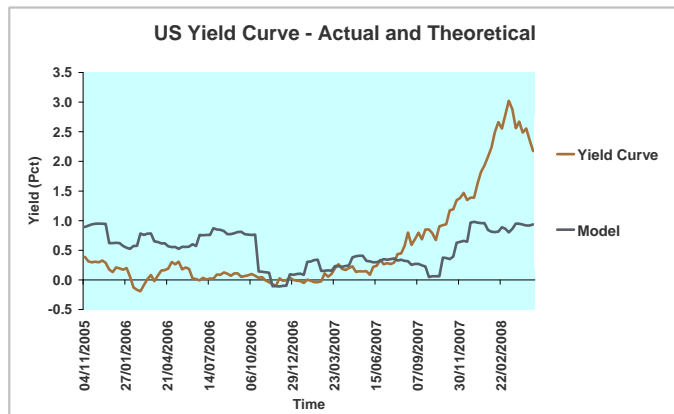
It would be easy to talk ourselves into recession and the most extreme of scenarios. If the papers were to be believed then we are heading for the kind of austerity that we haven't known since the dark days just after the Second World War. Would you believe the new "must have" product is now a sewing machine so that people can make their own clothes!

For sure there are good reasons to expect a period of readjustment that will lead to reduced expenditure and all that comes with it. The more sensationalist headlines come from the desire for growth piled upon growth until the system is at bursting point. In this sense Capitalist optimisation behaves like a three year-old child that thinks the world revolves around it and throws a tantrum when it doesn't get its way.

As you know we aren't big fans of rigid mathematical models here at Newton but every now and again it's good to get some guidance especially when we are facing puzzling behaviour. Take, for instance, a view of the US bond market that accounts for inflation and historical real yields and the like (see first illustration). It's pretty obvious that under normal circumstances nominal bond yields would be much lower (heading towards the 3 percent we have been talking about in presentations). Clearly, in this sense, the rate cutting actions of the US Federal Reserve have been a failure in persuading bond yields to fall. Food and energy price inflation as well as a burgeoning budget deficit have undoubtedly contributed to the impotence of official actions.



Allied to this, the yield curve similarly has failed to respond to the less than ideal inflation and supply conditions despite the weight of other evidence (like unemployment and housing) that should have sent the curve flatter by as much as 1.5% in recent months (see second illustration).



The difference between theory and practise is so stark right now in the US that it's worth referring back to models such as these even if it is just to illustrate where we could be heading to, in what looks like a difficult 6 months coming up: lower nominal yields and flatter yield curves (which isn't the end of the world).

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