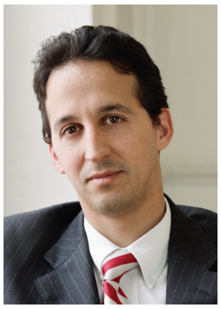
# SUSTAINED LOW INTEREST RATES DEMAND NEW STRATEGY

**ASK THE EXPERT:** AN INTERVIEW WITH MOURTAZA ASAD-SYED, HEAD OF THEMATIC AND TACTICAL INVESTMENTS FOR SOCIETE GENERALE PRIVATE BANKING, AND BERTRAND DURNEZ, HEAD OF FIXED INCOME FOR SOCIETE GENERALE PRIVATE BANKING LUXEMBOURG

The ongoing financial crisis and economic uncertainty have decreased risk appetites as investors seek more control over their assets. But many are too concerned with liquidity and are spurning potential superior returns over time. Societe Generale's Mourtaza Asad-Syed and Bertrand Durnez offer guidance on how private investors can change their investment behavior to preserve capital amid very low interest rates.



Mourtaza Asad-Syed, Head of Thematic and Tactical Investments for Societe Generale Private Banking

Bertrand Durnez, Head of Fixed Income for Societe Generale Private Banking Luxembourg

## Q: How has the financial crisis changed the savings behavior of private investors?

**Durnez:** We are seeing three major trends. First, there is a much lower tolerance for anything that is not transparent. Second, there is a strong desire for a high level of portfolio liquidity—to be inactive rather than take risks. This is typical post-crisis behavior. Finally, private investors now prefer investments with regular and stable income over potentially higher—but also more risky—capital gains.

We can summarize this strategy in three words: transparency, liquidity and control. Private investors want to fully understand the risks they are exposed to.

## Q: Is inflation still a concern?

**Asad-Syed:** Interest rates are so low that even with contained inflation, capital erodes over time. Rates will remain low for the foreseeable future throughout the Organisation for Economic Co-operation and Development (OECD). In the past three years, euro cash savings have cumulatively risen by 2.9%, while prices in the euro zone have increased by more than 6%. Furthermore, dollar cash savings have only risen by 1%, with a cumulative inflation rate of 8.2% in the United States.

## Q: Is cash an appropriate solution to preserve capital?

**Asad-Syed:** The answer is generally yes, but in a context of negative real interest rates, preservation of capital is itself no longer guaranteed by cash deposits, which impacts the medium- to long-term investments preferred by private clients.

## Q: What alternatives exist in current global economic conditions?

**Asad-Syed:** Private investors may be overestimating their liquidity needs. They should be focusing more on long-term investments on other overnight deposits. They should shift from cash deposits to bonds, particularly corporate bonds. They can move a small portion of their portfolio to foreign currencies to take advantage of higher yields. There is a risk of devaluation, but lower volatility than in equity markets.

## Q: How do you employ this advice in the portfolios you manage?

**Durnez:** We have strengthened our expertise in the management of credit risk and corporate bonds with a team of five credit strategists, each covering broad areas of economic activity, and we have created an innovative partnership with a specialist in credit analysis in order to improve our corporate bonds offerings.

## Q: How do customers perceive these concerns?

**Durnez:** The battle lines are drawn and the object is clear: we need to fight the effects of interest rates and steady—but low—inflation over time. Our customers are now aware that they need to manage their cash more dynamically. They are happy to delegate the management to us, but they want to understand how we access primary markets, perform credit analysis and optimize trading efficiency.

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