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CBIS
Catholic Responsible Investing

John W. Geissinger, CFA
Chief Investment Officer

A Conversation with Chief Investment Officer John Geissinger

At quarter end, stocks were at year lows, interest rates were rising, and volatility was relentless. How have the CBIS funds fared amidst all this gloom and doom?

Mr. Geissinger: For reasons no one can fully explain, quality has been the worst performing area of the equity market for most of this year. And the one bias our funds possess is toward higher-quality stocks. Our leaning toward good companies simply didn't protect as much this period as we would normally expect.

The equity sub-advisers must be caught up in all this.

Mr. Geissinger: Which helps explain much of the managers' underperformance to date. But they've maintained their conviction and confidence in the quality companies they own because they're seeing strong fundamentals. Everything we've heard from our managers is reasonable given their investment styles.

How about the fixed income side, where the Fed has been steadily raising rates.

Mr. Geissinger: Investors are clearly concerned that bonds haven't provided the sort of protection you might expect in difficult stock markets. Our fixed-income sub-advisers have been looking at different ways to add value despite the uncertainty that we see with rates.

> ***"I believe we're finally to the point where the valuation of stocks and bonds can get closer to parity..."***
> **– John Geissinger**

You've said before that the Fed was signaling normalization of interest rates before COVID. What are your thoughts on the central bank at this hour?

Mr. Geissinger: Because of inflation, the Fed is in what I call an "aggressive renormalization" phase. I believe we're finally to the point where the valuation of stocks and bonds can get closer to parity, a condition that hasn't existed since the Financial Crisis.

That sounds like a big deal.

Mr. Geissinger: It's a very big deal. Allowing interest rates to normalize is a healthy adjustment process. That doesn't mean it's painless. And that's what we're living through now. But this transition period will set us up for a more balanced financial outlook over the long term.

Can you elaborate on renormalization?

Mr. Geissinger: Since we came out of the Financial Crisis, central banks around the world have been creating negative real interest rates through the power of an unlimited balance sheet. As a result, returns from fixed income were artificially subdued. We enjoyed the benefit of that mispricing through higher returns on the equity market. If we're now back into a 4% to 5% risk-free return environment, we'll have more predictable return patterns for the equity market.

> *"This skewness to the upside is the primary reason we're able to produce such competitive returns over the long term."*
> **– John Geissinger**

What does that mean for investors?

Mr. Geissinger: When interest rates can be set by true market factors as opposed to a non-economic buyer like the central bank, we can move back to more normal functioning stock and bond markets.

In the meantime, we're dealing with this transformation.

Mr. Geissinger: And the volatility that comes with it. The challenge is not getting caught up in the emotion of the moment.

Does this kind of environment benefit your integrated manager approach?

Mr. Geissinger: I think so. It comes back to the "I" in CRI. When we look at managers, we look carefully at their upside/downside metrics. We want something less than 100% in down markets and more than 100% in up markets. Through intentional portfolio construction, then, we can smooth out a portfolio's return patterns over time. This skewness to the upside is the primary reason we're able to produce such competitive returns over the long term.

You've given us good reason to be encouraged about the future. What's still a concern to you?

Mr. Geissinger: It's that the Fed will not be able to pull off a soft landing. And to break the inflationary cycle, we may have to have a recession. A lot of the volatility that we're witnessing right now is the market reckoning how severe this recession is going to be.

Contact Us

We want to hear from you!
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