**A Bond Star, Buried by Junk, Looks for Daylight**

The 82-year-old Dan Fuss has managed bond-market crises before. This is a tough one.

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It’s not just that Dan Fuss has seen it all, it’s that he remembers it.

And that will come in handy now, as both high-yield (or junk) bonds and the classic mutual fund that he manages, [Loomis Sayles Bond Fund](http://quotes.wsj.com/mutualfund/LSBDX), have gotten pounded.

The 82-year-old Mr. Fuss has managed through bond-market crises before. The former Morningstar Fund Manager of the Year is in a stretch of underperformance—his fund is near the bottom of its Morningstar peer group over 12 months after losing about 7% in 2015.

The $16.9 billion value-driven Loomis fund, with a strategy of investing as much as 35% of its assets in junk, was in the eye of the storm when concern over risky companies’ finances helped trigger the bond rout.

[**Eight Questions to Ask Before Picking Mutual Funds or ETFs**](http://graphics.wsj.com/etfs-vs-mutual-funds-how-to-choose/)

Deciding between the two isn’t always straightforward. Here’s help clarifying the differences and similarities.

The fund is still in the top 10% of its peer group over 15 years, says [Morningstar](http://quotes.wsj.com/MORN) Inc., with an annualized average return of 7.25%.

Mr. Fuss says that while the biggest opportunities are over for now, he thinks the market is almost back to what might be considered normal, which means he still sees buying opportunities for selective high-yield investors.

Excerpts from a recent interview:

**WSJ: You’ve seen seemingly every kind of market condition and crisis over several decades; what, if anything, about current conditions feels different to you and what’s the same?**

**MR. FUSS:** Well, it’s very different right now. It always is.

One similarity I do find is with the 1973-74 market, in that this tough market for corporates and Treasurys has been nauseatingly long and drawn-out.… It gets to you after a while in that it just doesn’t stop.

Most of [January] is starting to feel like a significant interruption in the [downward] trend or possibly the bottom of it. But this market is unlike any other in my career in that it’s far more global and the major movers are global factors.

It’s one of those times of market distress, no two ways about it, but it’s not an ’08. We do hope to bounce back, but I don’t think it will be a major bounceback because the basic level of interest rates is very low. That makes it a very different setting than many past downturns.

**WSJ: Junk bonds have been in the headlines for the wrong reasons; you have said they are worth buying now. Why?**

**MR. FUSS:** The market is in a seesaw period. There are no real pronounced pockets, humongous areas of value. High yield is one that, on average, is cheap on an absolute basis, but within the average you have wide, wide swings.

Even the better high-yield is on sale right now, but it’s still a bit pricey. It has recovered from November-December. But it’s still well-priced for the risk it represents.

**WSJ: There was a point in December when it looked like high-yield was headed for real instability. Now you, and others, are talking about opportunities. Are the concerns over instability gone?**

**MR. FUSS:** Not completely, and it never is because you can get an illiquid market at the turn of the moment. But it’s also not what it was a few weeks ago. In high-yield, it’s a transfer from retail to institutional, from mutual funds themselves to institutional buyers.

In our own case and many others, we had some very heavy outflows during the fourth quarter and now they are moderate but still net negative. On the separate-account side [individual accounts for high-net-worth investors], they are very, very, very positive.

The public-sector pension area [is also adding to inflows because it] needs more yield, and some of them are tired of the alternative asset classes where, to be fair, they have had a difficult experience.… Is that enough to offset the outflows from the mutual funds? It’s getting pretty close.

And then, the frosting on the cake is that there is offshore money coming into structured high-yield—five years down to two maturity—so that’s distorting that market so that the yields are not there at this time. But the rest of the high-yield market is cheap on an absolute basis, so you can say, “I’ll hold this no matter what interest rates do,” and that’s the first time in a long, long time you have been able to say that.

**WSJ: How do you feel about rising interest rates?**

**MR. FUSS:** I think the poor Fed is caught between at least one rock and four hard places.

The bottom line is that they are getting a lot of pressure to get the short end of the curve up. That’s coming from the banking community—not the big banks but the medium and smaller banks.

I’d say it’s a coin toss whether they try to take it up in March. I do not agree that they will try to take it up later in the year because it’s an election year, and a wild year. Never forget that the Fed is a creature of Congress. It has to keep Congress happy. If you’re the Fed, you can have the president get angry with you, but you cannot have Congress get mad at you and take action.