Fixed Income Insights

US EDITION

MONTHLY REPORT | **AUGUST 2024**

Treasuries front-run the Fed as growth slows

Amid weaker Q3 growth, and signs of risk-off, US Treasuries benefit from extra duration and convexity. Nominal yields led real yields lower in July, as markets anticipate a bigger Fed easing move in September. JGB returns were boosted by the yen, as rate differentials with the US narrowed. Credit performed well YTD, but spreads are tight.

Macro and policy backdrop – Fed shift to focus on dual mandate important

Notable policy changes in July, within the G7, as BoJ goes its own way. (pages 2-3)

Yields, curves and spreads – Exc. Japan, easing moves drive curve dis-inversion

Further G7 easing & strong signalling from the Fed, drove short yields lower. (pages 4-5)

IG credit & MBS – BBB credits continue to lead returns, RMBS spreads stabilize

Lower rate prospects helped RMBS. IG spreads edged out as Treasury yields fell. (page 6)

High yield credit analysis – Banks and manufacturing outperform

High debt levels weigh on telecoms. Financials and banks show strong returns. (page 7)

SI sovereign & corporate bond analysis – Green sovereigns' duration helpful

Green duration boosts recovery. Bank and utility overweight helps green credit. (page 8)

Performance – Yen drove JGB gains in July; policy easing boosted other markets

JGBs outperformed in US dollars, on the strong yen. Other G7 govt bonds helped by lower rates. Credit still delivering positive returns. (pages 9-10)

Appendix (from page 11) Global bond market returns, historical bond yields, bond market durations and market values and foreign exchange returns.

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Chart 1: Nominal yields led real lower in July, as breakevens mostly fell. Yields fell more in the US and Canada, as bonds front-run Fed easing and after more BoC easing. JGB yields rose with BoJ rates.

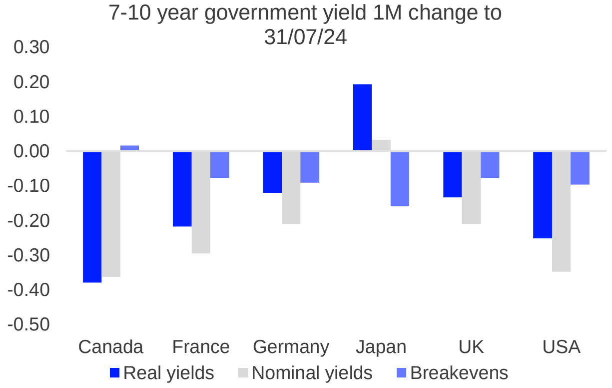
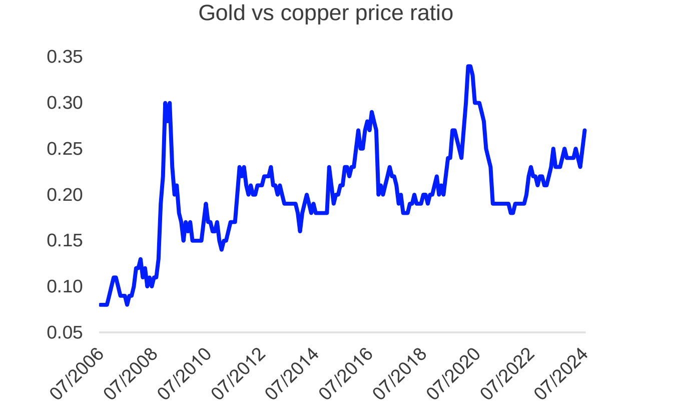


Chart 2: The gold/copper price ratio was a reliable indicator of risk-off after GFC and Covid. Copper gained from the AI boom in 2023-24 but geopolitical uncertainty & lower rates drove even stronger gains for gold.



Macroeconomic Backdrop – Growth and Inflation Expectations

Growth forecasts from the IMF reflect a slow-motion cycle, with the US the stronger growth outlier, though the July payroll report suggests growth is slowing in Q3. G7 inflation is at last nearing 2% targets, though services inflation remains sticky, near 5% in both the US and UK. Commercial real estate stresses remain, led by the office sector.

Updated IMF growth forecasts show marginal upgrades to China, Canada and EM, but modest downgrades elsewhere, with a weak growth outlook in Europe particularly, continuing. The Atlanta Fed now-cast forecasts US growth at 2.8% for Q3, but this is likely to be revised lower after weak July payrolls. The US savings ratio fell in Q2, to 3.4%, the lowest since Q4, 2022, signalling buoyant consumer confidence, despite softening in the labour market.

Regional inflation rates show some convergence close to the 2% inflation target level. China remains an outlier with its deflation risks, reflecting weak domestic demand, which drove more policy easing in July. US inflation readings improved in Q2, even if the headline CPI remains at 3% y/y. Shelter inflation fell to 5.2% y/y in June, versus a peak above 8% in 2022. The move to 2% inflation is proving the most difficult leg of the journey for the Fed, but the economy is enjoying a soft landing.

The US unemployment rate edged up to 4.3% in July, versus 3.5% a year ago. Payroll growth of 114,000 in July is also well below the 12-month average gains of 215,000. The participation rate remains stable at 62.7%. The weaker July report is the first notably weaker report in recent months, and it would be premature to conclude this is recessionary.

US commercial real estate remains under pressure, particularly the office sector, where higher rates and the structural fall in demand since Covid created a perfect storm. CRE prices fell for 2 years after the GFC, as Chart 4 shows, despite rates near zero. Long leases and a reluctance to mark collateral prices down often makes commercial property crashes long-lasting.

Chart 1: IMF growth forecasts continue to show the US as a strong growth outlier in the G7, with little scope for fiscal stimulus in the G7. Central bank rate cuts are likely to remain measured and gradual.

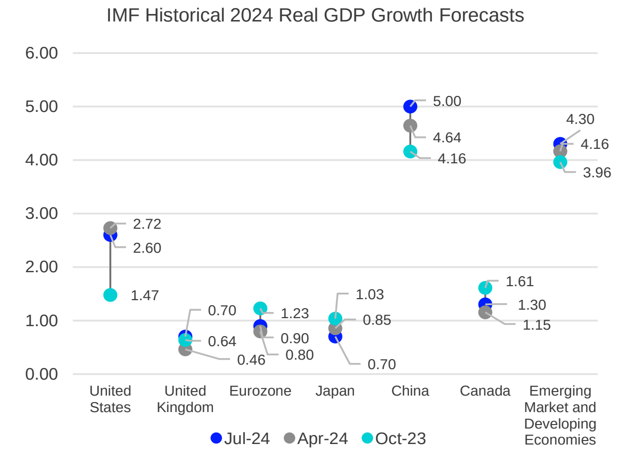


Chart 2: Squeezing inflation down to 2% from 3% y/y remains a challenge, particularly in the US and UK, given higher services inflation. But progress in Q2 gives scope for gradual easing cycles.

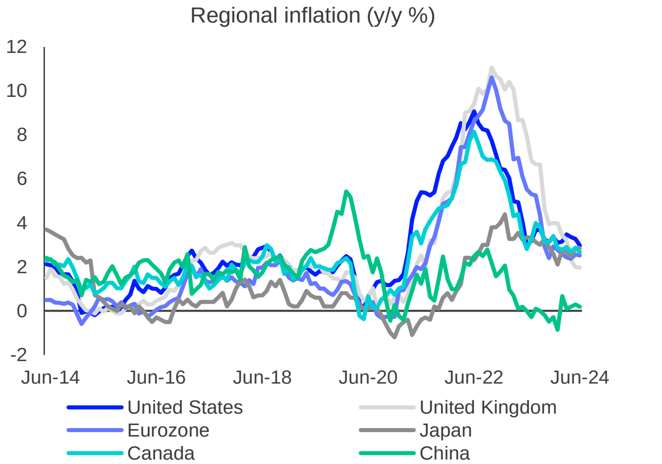


Chart 3: The US labor market has slowed and unemployment has moved above 4%. Average hourly earnings also slowed a little, to 3.6% y/y, in July, though overall, the soft landing continues.

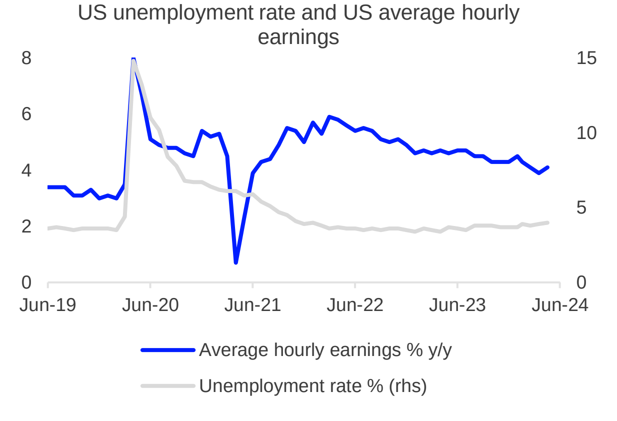
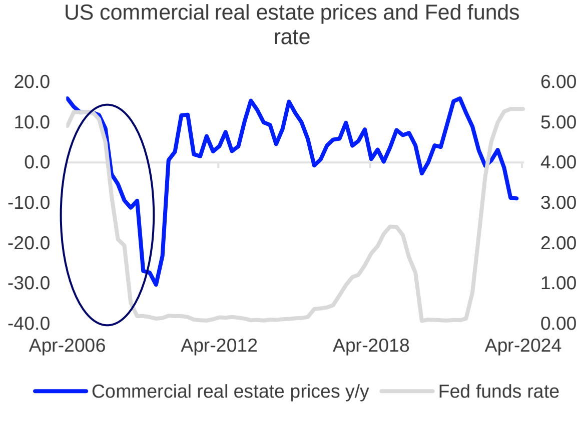


Chart 4: Another slow-motion crash? After the GFC, commercial real estate prices fell for a further 2 yrs, after the Fed took rates to zero. This may be due to long leases and a reluctance to mark prices to market.



Financial Conditions and Monetary Policy Settings

Apart from the weakness in commercial real estate the US economy shows few recession risks, and the curve is dis-inverting, led by 30s/10s. BoJ intervention caused unwinding of some carry trades in yen/dollar though the BoJ would not welcome a strong yen rally. Better Q2 inflation data allowed the BoC and BoE to ease rates, even if the soft landing constrains Fed easing. High debt/GDP ratios restrict fiscal policy as a counter-cyclical tool.

Distortions from Quantitative Easing (QE) and now Quantitative Tightening (QT) may help explain volatility in the US 10s/2s curve since Covid, and the failure of a recession to develop despite the deep curve inversion in 2023-24, to date. This contrasts the more stable 30s/10s curve, as Chart 1 shows. The 30s/10s curve has tended to lead the 10s/2s curve in previous cycles, and is showing signs of steepening. It also inverted, just, before the dot.com and GFC recessions.

FX moves show a strong dollar since Covid. High US employment and strong growth drove US dollar gains, and the yen carry trade has also been a factor. However, BoJ intervention and an increase in short rates to 0.25% (July 31) drove the yen rally in July, even if a trend reversal requires more narrowing in rate differentials. The Canadian dollar held up well despite rate cuts.

After focusing on inflation control since 2022, the Fed pivoted to focus on the dual mandate of employment and inflation, on July 31, making a September rate cut more likely. The BoC has eased 50bps since June, faced by weaker domestic demand and inflation in Canada (2.7% y/y). The BoE took advantage of inflation at 2% y/y to begin cutting rates, but it was a split vote (5-4 vote). The increase in BoJ short rates to 0.25% surprised markets, with the hint of further rate increases to come.

After three substantial global shocks – the GFC, Covid and Ukraine, since 2008 – and weak G7 growth – public sector bailouts have driven debt/GDP ratios to 100% or above (though these ratios were much higher in the late-1940s). This matters more in a higher rate regime, given debt service costs, constraining the use of fiscal policy for counter-cyclical purposes.

Chart 1: Still looking at the wrong curve ? The 30s/10s curve has not inverted since Fed tightening began in 2022, though it did before the GFC and early-2000s recessions, confirming 10s/2s signalling.

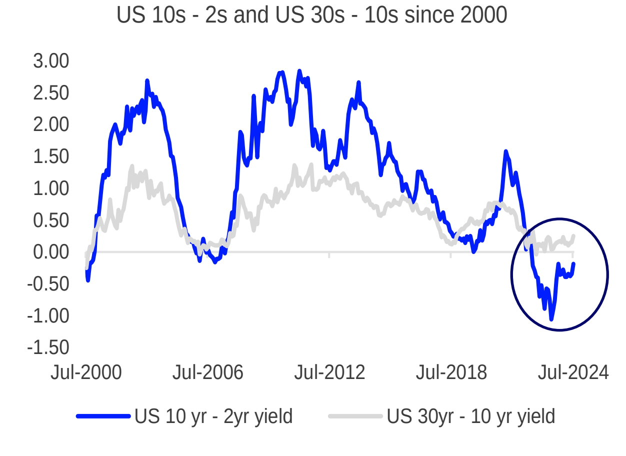


Chart 2: The US dollar has been on a strengthening trend since pre-Covid, helped by stronger relative growth. The yen rallied strongly in July, but has fallen substantially since Covid.

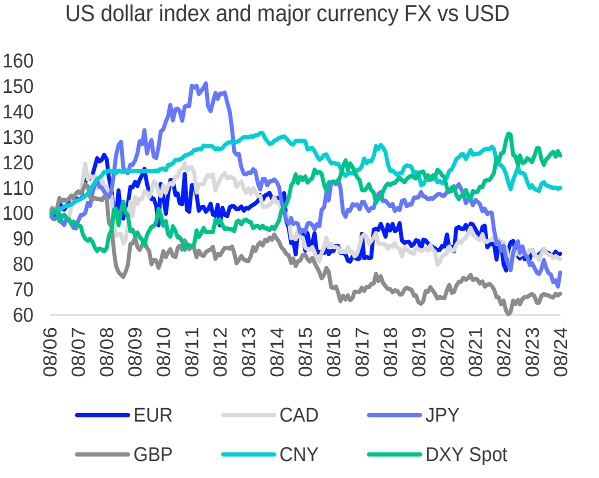


Chart 3: The BoJ decision to raise short rates to 0.25%, was a surprise, though the Fed signal of a likely rate cut in September was not. The BoE cut rates 0.25% on Aug.1, but after a 5-4 split vote.

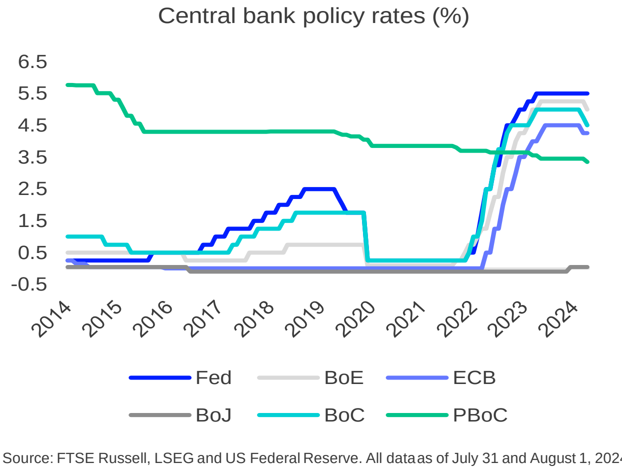
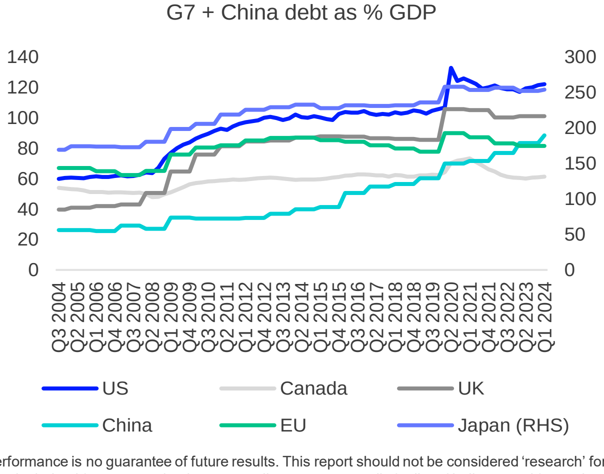


Chart 4: G7 + China debt/GDP ratios almost doubled since the GFC, Covid and Ukraine shocks. This constrains fiscal policy as a counter-cyclical stabilizer, leaving the onus on monetary policy.



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Global Yields, Curves and Breakevens

Chart 1: 7-10 year yields fell in July, after improved inflation data and signalling of easing from central banks, even if the Fed remains on hold. Treasury yields anticipated a September FOMC rate cut.

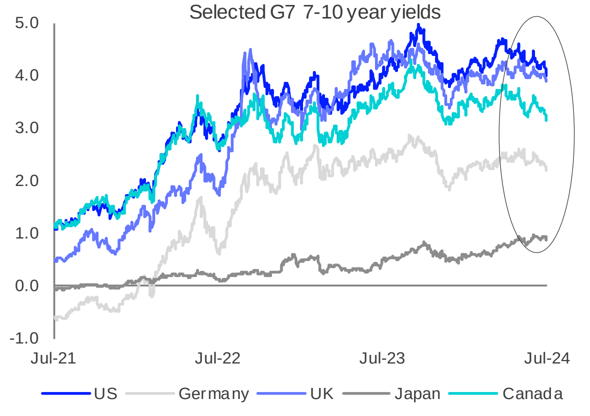


Chart 2: Real yields in the 7-10 year area also edged a little lower, though nominal yields fell further than real yields. This is the normal pattern during easing cycles, when breakevens tend to fall.

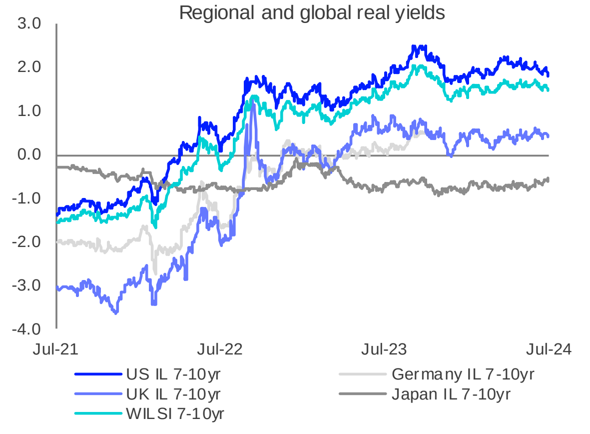


Chart 3: Yield curves are slowly dis-inverting, apart from Japan, where the BoJ is proceeding to raise short rates. The BoC's 50 bps in cuts in June & July removed much of Canada's curve inversion.

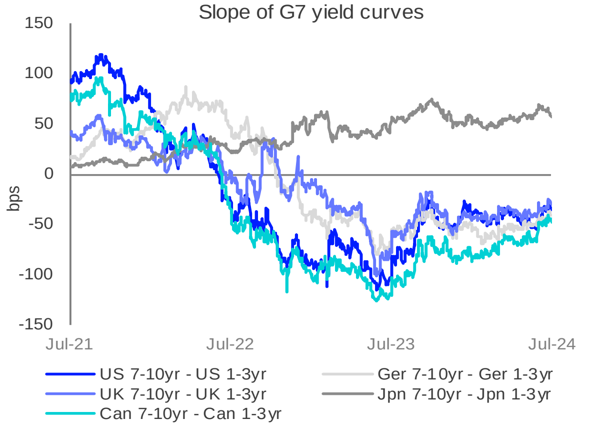


Chart 4: Yield curves steepened in long maturities in July, as shorter yields fell more, after central banks signalled more easing is likely in Q3/Q4. JGBs steepened less, on prospects of a rise in short rates.

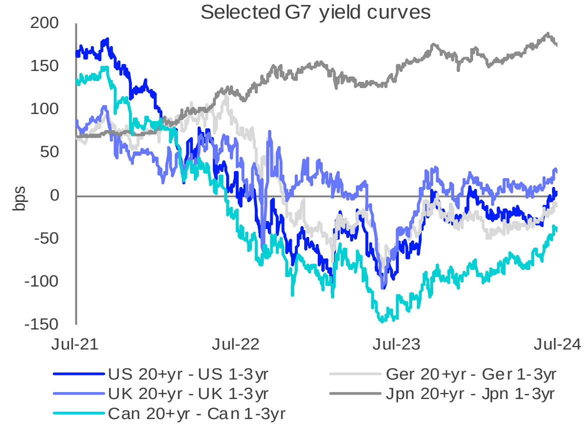


Chart 5: Inflation breakevens fell back, as nominal yields fell more, and inflation data for June was lower. This is the normal cyclical pattern of breakevens moving pro-cyclically with rate expectations.

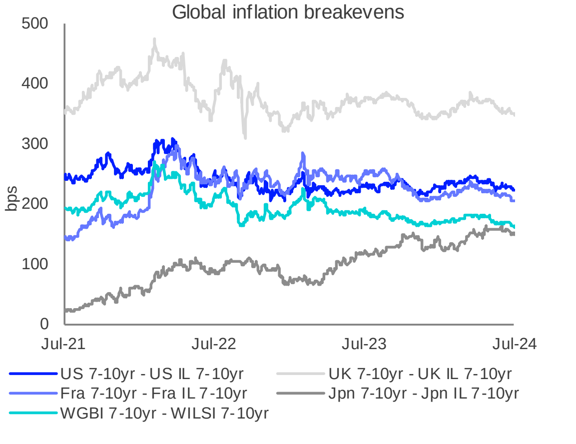
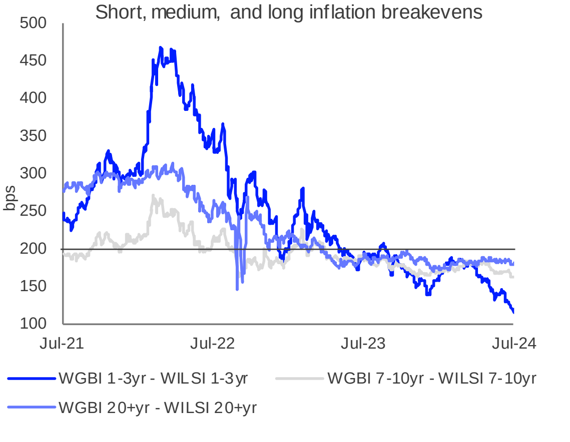


Chart 6: Short-dated breakevens fell sharply in July, and are well below the 2% inflation target level. Hope for further central bank easing is an important driver. Longer dated breakevens remain stable near 2%.



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Yield Spread and Credit Spread Analysis

Chart 1: US sovereign spreads mostly converged further in July, though not against Canadian 7-10 year maturities, where yields fell after BoC easing. Higher JGB yields reinforced US convergence.

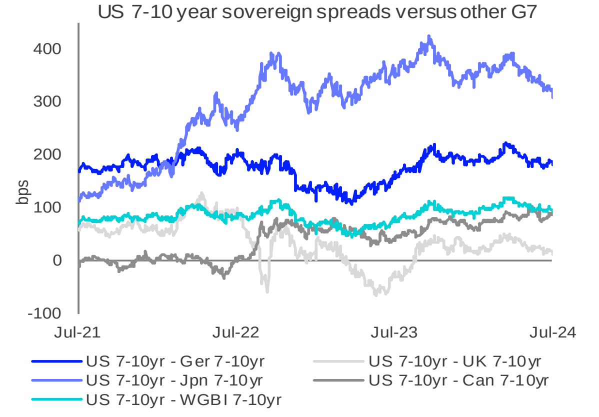


Chart 2: BTP spreads resumed tightening in July and unwound the June widening, on prospects of further rate cuts. Spreads reached 2-year lows versus JGBs, after the BoJ raised rates again.

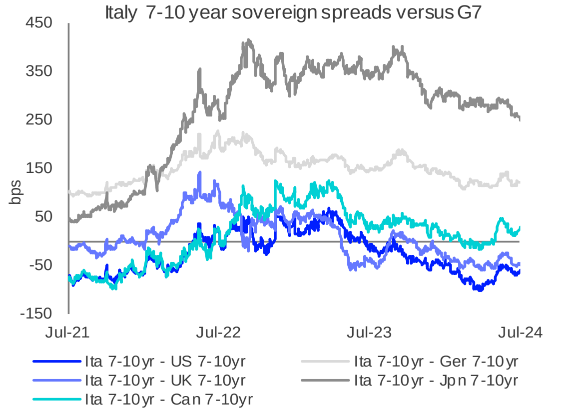


Chart 3: The China effect helped EM spreads tighten versus JGBs mainly, though spreads moved less elsewhere in July. This is an unprecedented cycle as spreads narrowed in the Fed tightening phase.

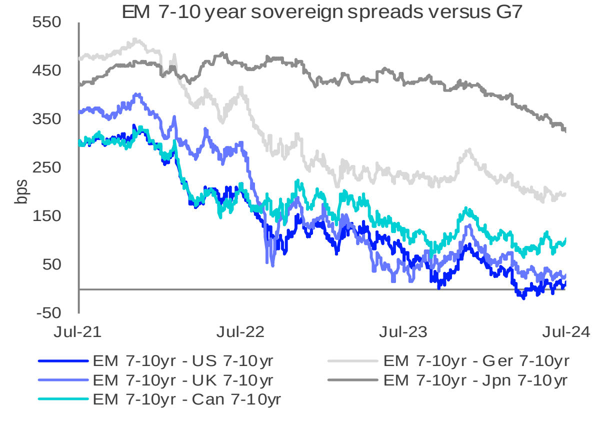


Chart 4: Chinese spreads generally remained near recent lows, after the PBoC cut rates again, though they turned slightly less negative versus the US and Canada, as yields fell even more than in China.

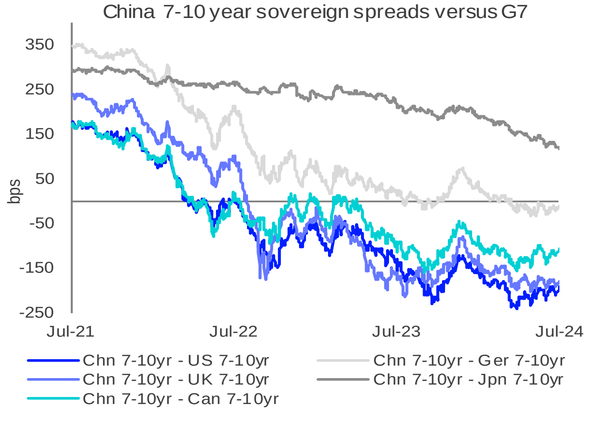


Chart 5: Although absolute yields remain well above pre-Covid levels, US and Eurozone credit spreads are at, or below those levels, leaving them vulnerable to a bout of risk-off, after a long risk rally.

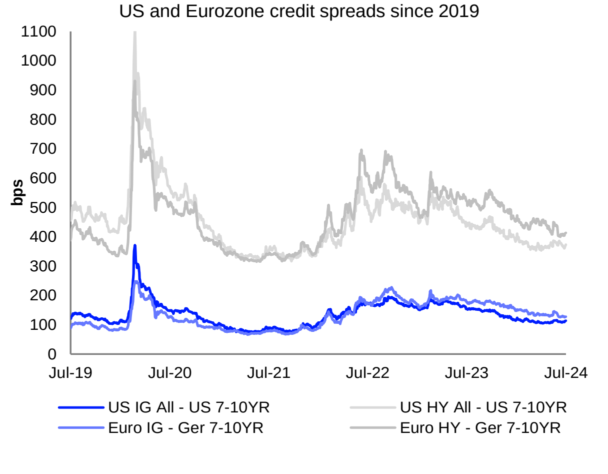
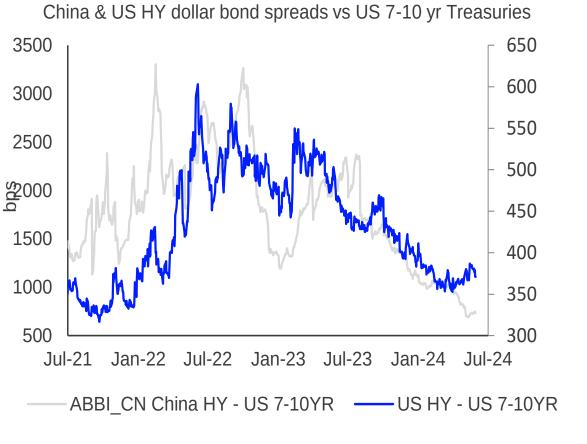


Chart 6: A series of support measures and PBoC rate cuts have helped Chinese HY dollar spreads tighten sharply. US HY spreads have also fallen in the risk rally, since the 2022 peaks.



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Investment Grade Credit and RMBS analysis

Chart 1: BBB returns continue to outperform in investment grade credit, despite the increase in the share of issuance. AAA has been the weakest performer since the Fed began raising rates in 2022.

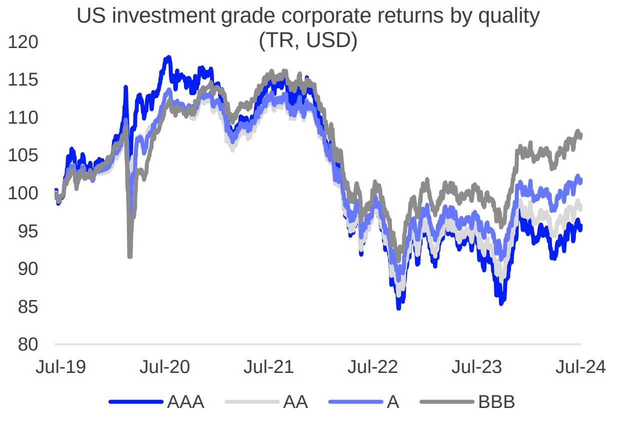


Chart 2: Credit spreads have converged, led by Energy, after the initial Covid blow-out in spreads when energy prices collapsed. Bank spreads have remained more stable throughout the cycle.

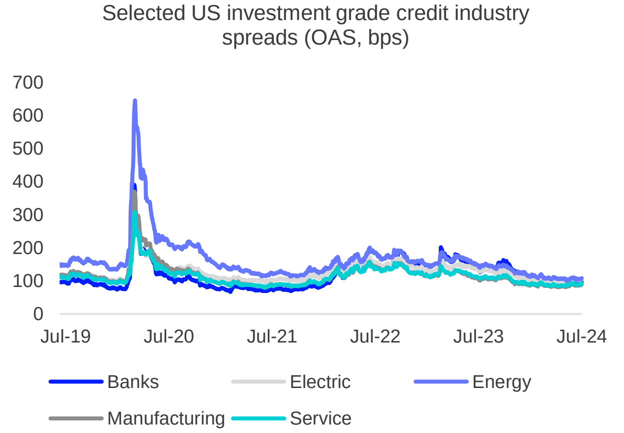


Chart 3: AAA duration largely reflects govt bond duration, and has shortened about 2 years from the 2021 peak duration. Duration on lower grade credits has shortened less, partly reflecting issuance.

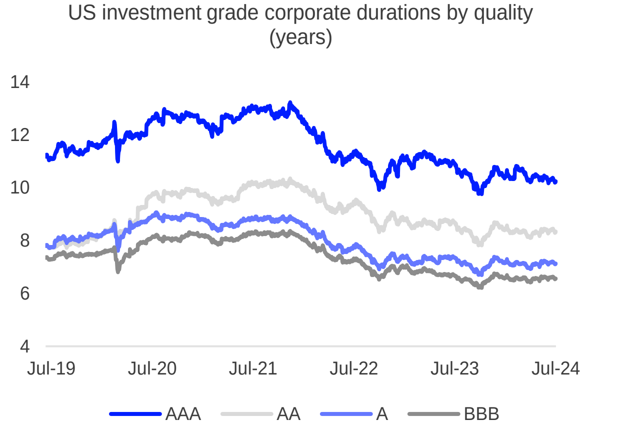


Chart 4: Banks continue to have the largest IG industry weight at 22%. Other financial and insurance issuers amount to a further 12%, so financial issues account for over 1/3 of total IG issues.

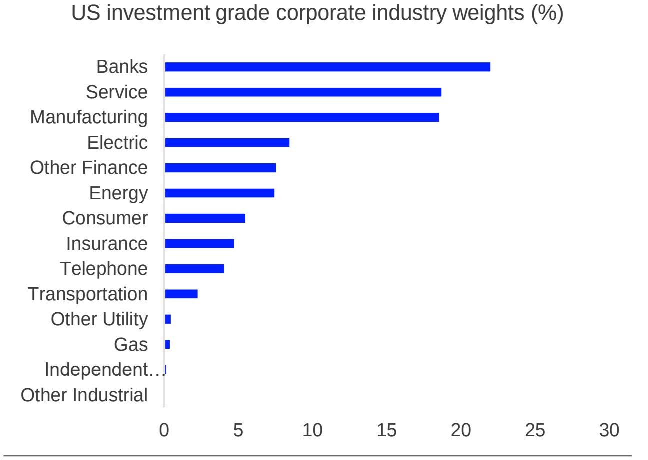


Chart 5: RMBS spreads remain stable near 90bp, while convergence in IG credit stalled in 2024. Negative convexity is an issue for RMBS even if rates fall, but offset by the agency guarantee.

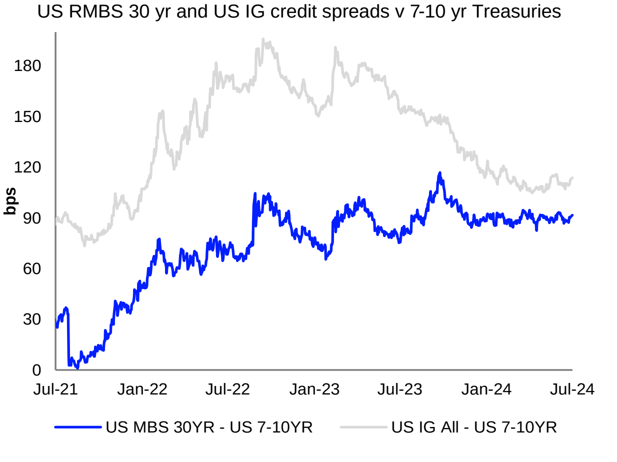
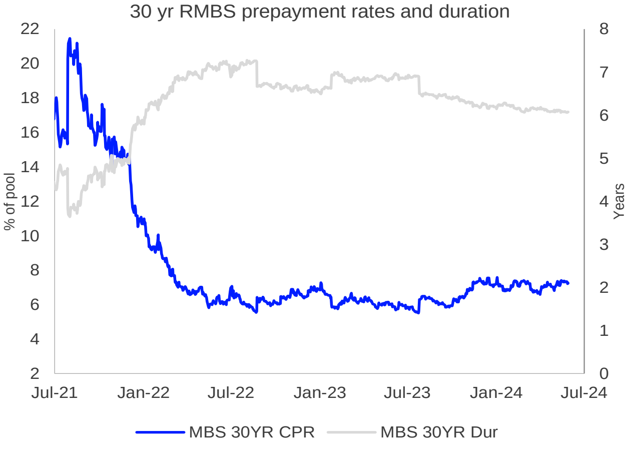


Chart 6: There are some signs of mortgage refis and prepayment rates creeping up, but an increase in prepayments will likely await Fed rate cuts, and a decline in mortgage rates, as 10-year yields fall.



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High Yield Credit Analysis

Chart 1: Telecoms underperformance reflects high debt levels. Most other sectors have performed strongly in the risk rally in 2023-24, led by Manufacturing.

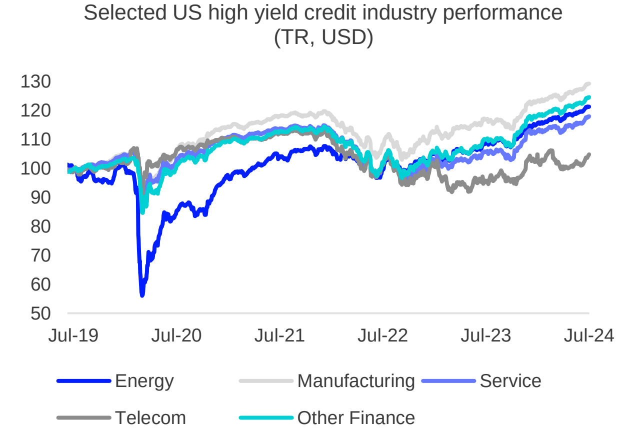


Chart 2: Bank issues continue to outperform in Eurozone high yield, reflecting strong net interest income from higher rates, and improved capital buffers. Telecom lagged on high debt levels.

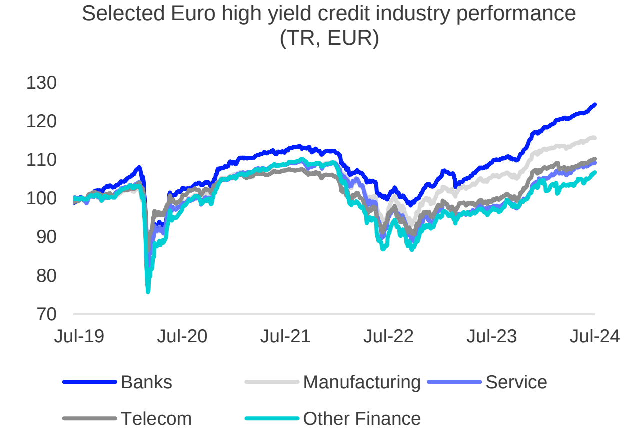


Chart 3: Lower grade issues in high yield outperformed in the risk rally, but risk-adjusted returns are more closely matched. BB issues have been less volatile overall, particularly in the early Covid period.

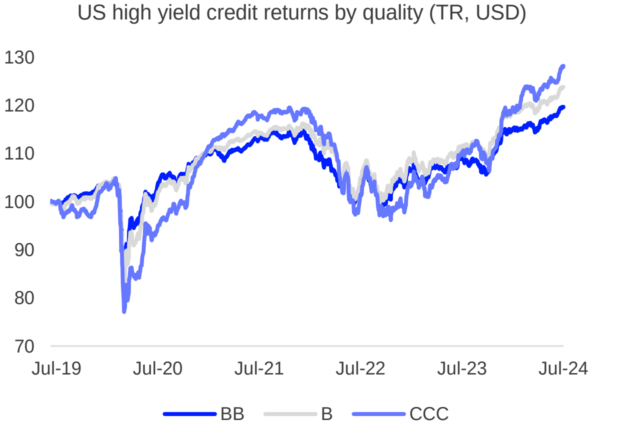


Chart 4: Spreads have edged out in lower grade CCCs, versus Treasuries, but the high yields enabled them to outperform versus higher grade issues. Coupon effects are now more significant.

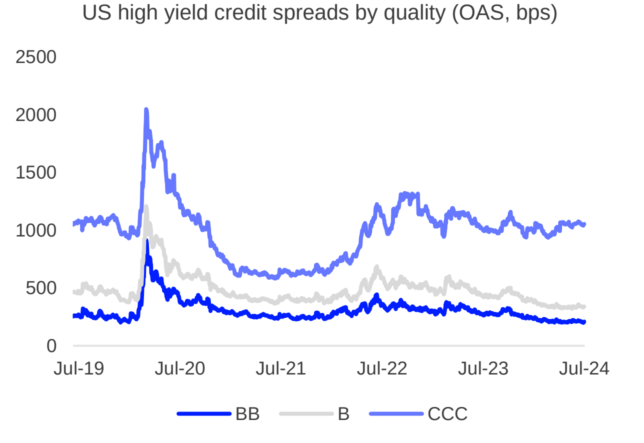


Chart 5: HY credit duration has fallen sharply since rates increased in early 2022. Pricing of high yield issues has proved more sensitive to growth and default expectations, than yield levels.

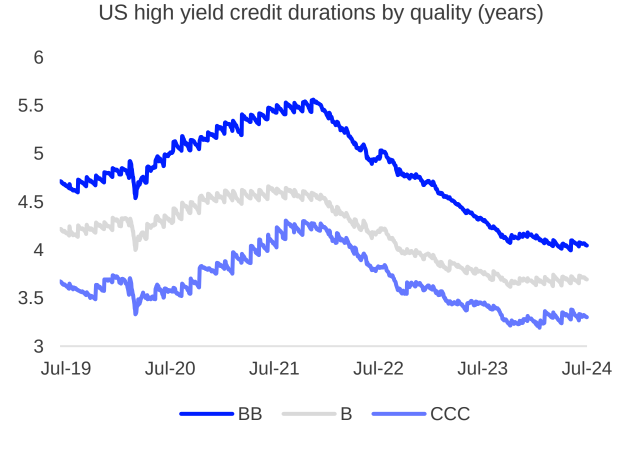
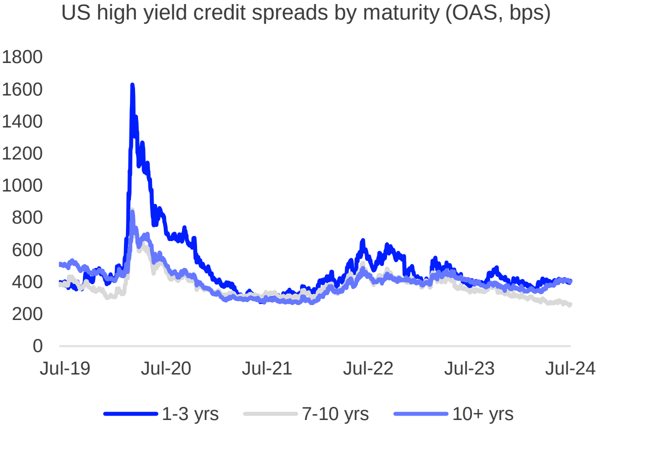


Chart 6: HY credit spreads widened in shorter maturities, as Fed easing expectations intensified, and 2-year yields fell. 7-10-year HY spreads remain near post-Covid lows, suggesting poor relative value.



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SI Sovereign and Corporate Bond Analysis

Chart 1: SI green bond performance was positive over 3M, with returns benefiting from falling yields, notably in Europe, where issuance is most dominant. 12M returns were also positive, unlike over 5 years.

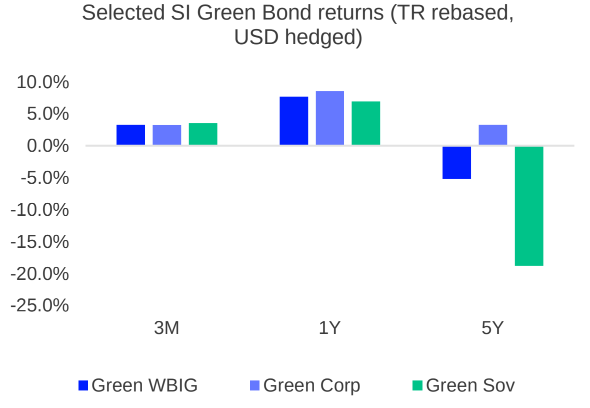


Chart 2: Green Bonds have underperformed over 5 yrs. Underperformance in Green Sov has largely been a function of the index's high active duration. Recent relative performance for Green Corp has been more positive.

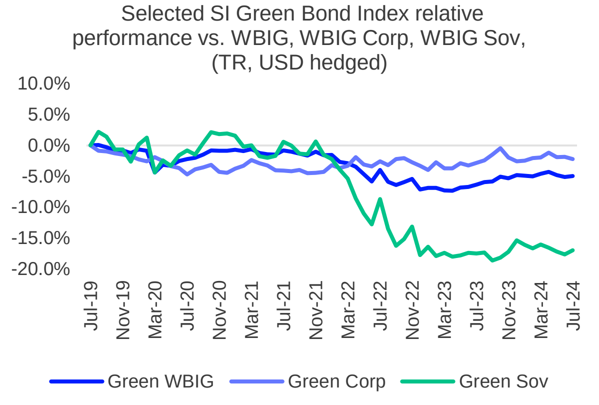


Chart 3: Within Green Sov, currency exposure is heavily weighted towards EUR due to the large amount of issuance in Europe and a lack of issuance in the US (resulting in no USD holdings in the index).

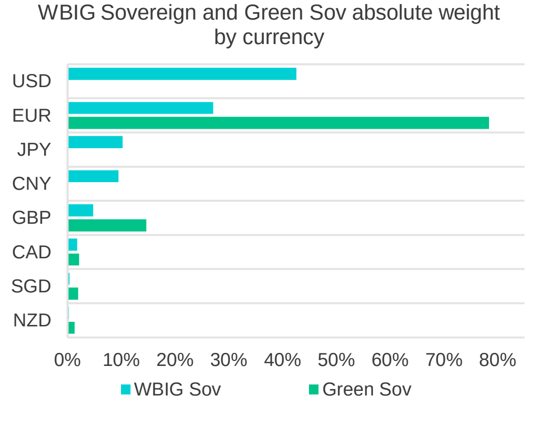


Chart 4: Banks and other financial institutions have been strong issuers of green bonds, leading to a modest overweight in the Green Corp index, alongside a sizeable overweight in electric utilities.

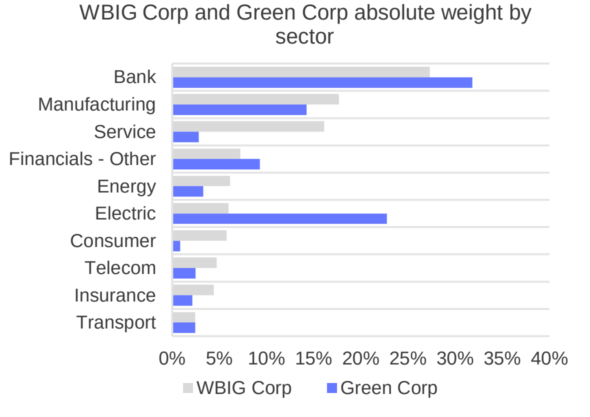


Chart 5: Despite falling in recent years, Green Sov still has a significant positive active duration. However, corporate green bonds have had a lower duration than their non-green bond counterparts.

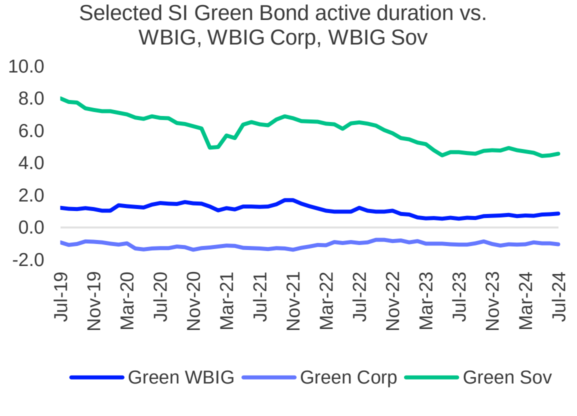
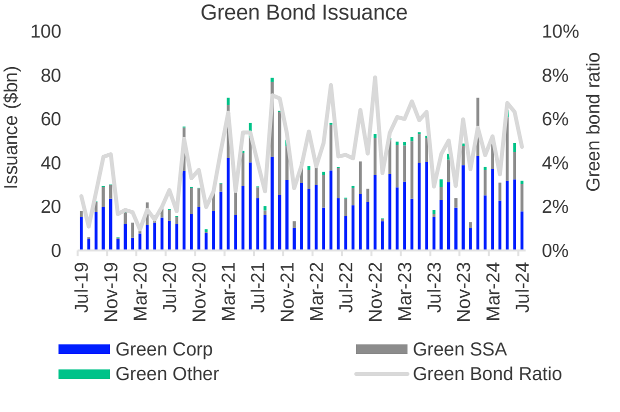


Chart 6: Green bond issuance as a percentage of total bond issuance fell to 4.7% in July, after reaching highs not seen since early 2023 in both May and June (6.7% and 6.3%, respectively).



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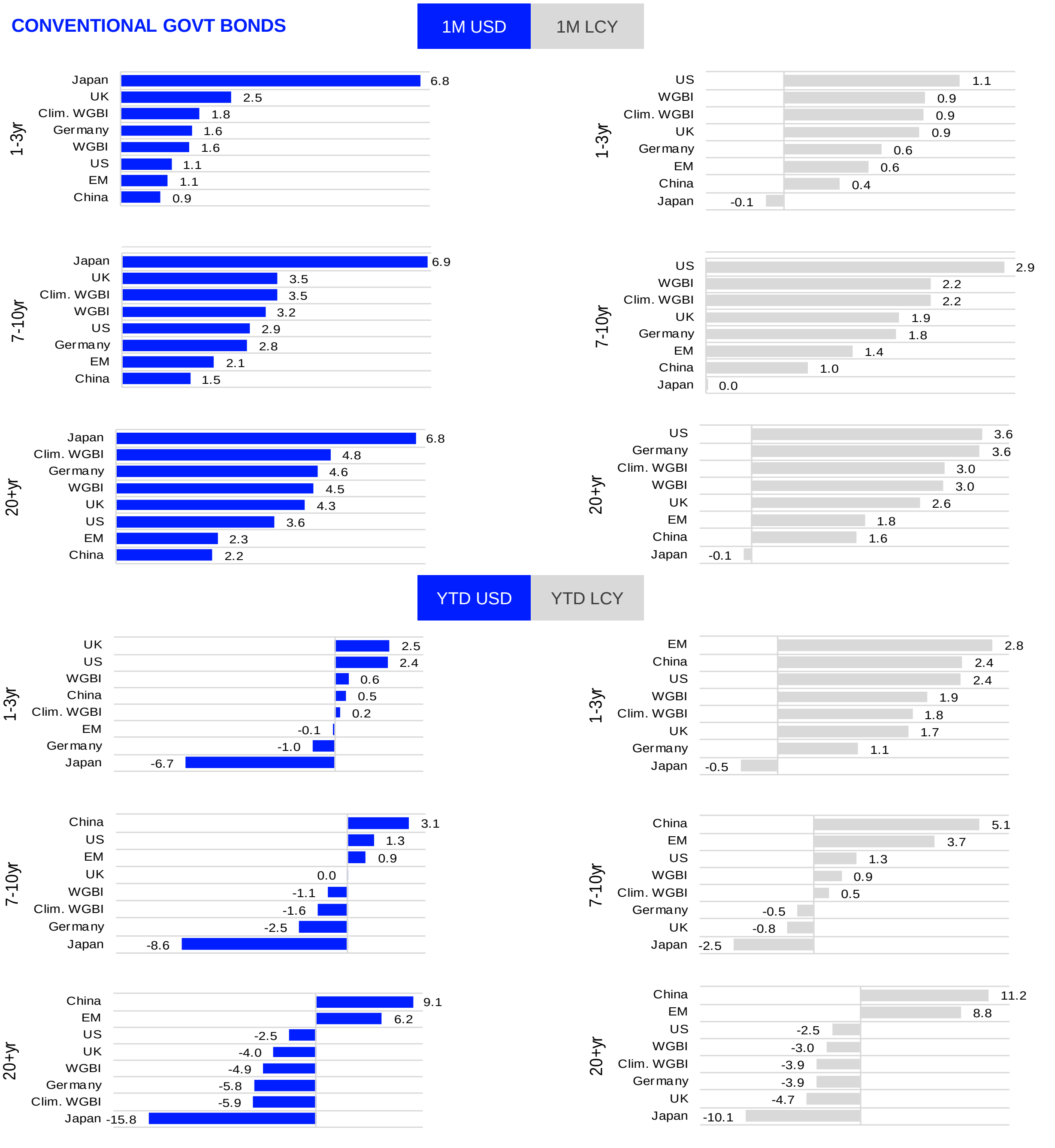
Global Conventional Bond Returns − 1M and YTD % (USD & LC, TR)

Helped by lower inflation, further policy easing and a weaker US dollar, G7 and EM govt bonds rallied in July, with JGB returns boosted by the stronger yen, in US dollar terms, after BoJ support and a rate increase. Apart from China and EM, YTD returns remain negative, led by long JGBs, with losses of up to 16%, in US dollars. Other long bonds remain down by 3-6%, in dollar terms, not helped by issuance levels. Short gilts and US Treasuries gained 2-3% YTD.

Currency gains drove JGB returns of 7% in July, for a dollar investor, after the BoJ intervened to support the yen, and some yen carry trades were closed. JGBs showed near zero returns in yen. A slightly weaker dollar drove other returns positive, in USD.

YTD returns generally remain negative however, reflecting the stronger dollar and impact of longer duration, though long China and EM govts gained 6-9% in dollar terms, as the PBoC has cut rates steadily YTD.



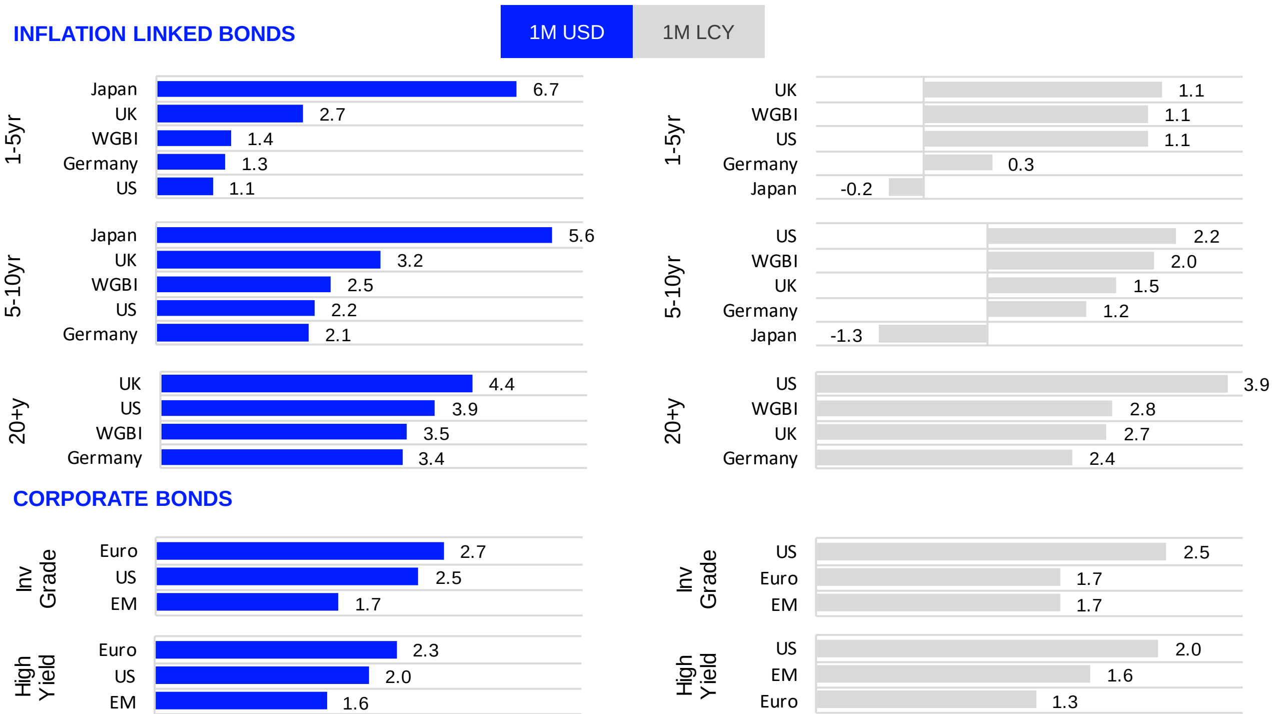
Source: FTSE Russell and LSEG. All data as of July 31, 2024. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

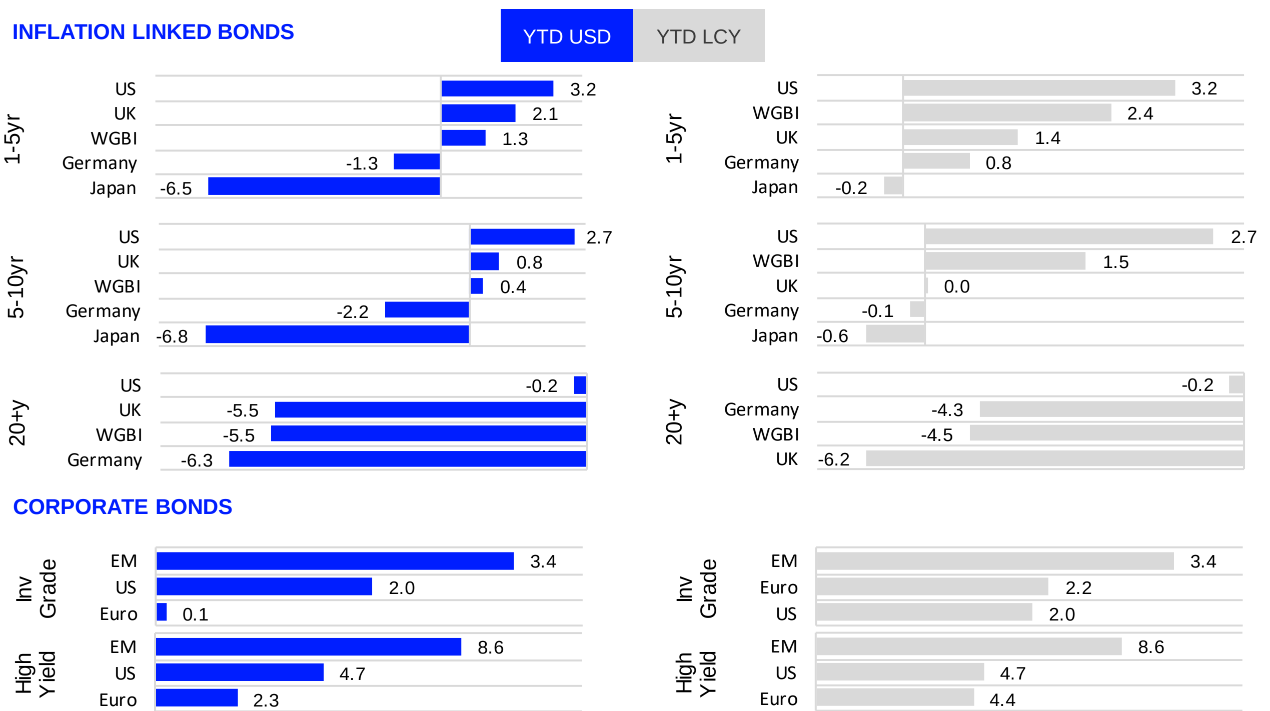
Global Inflation-Linked Bond Returns – 1M & YTD % (USD, LC, TR)

Inflation linked bonds also rallied in July, with positive JGB returns in US dollars completely driven by the yen rally. Short to medium JGB linkers gained 6-7% in dollars, but fell in yen. Currency effects boosted UK linker and Bund returns, as the dollar fell on the month. Credit again outperformed, led by Euro and US credits in July and EM YTD.

Returns were generally dominated by currency effects in July, led by JGBs, after the yen rally. Both IG and HY credits showed positive returns, with Euro credits gaining 2-3% in dollar terms.

EM credits lagged in July but still showed strongest returns of 3-9% in US dollars YTD, with HY the star performer, reflecting the risk rally globally in 1H 2024, and short duration.





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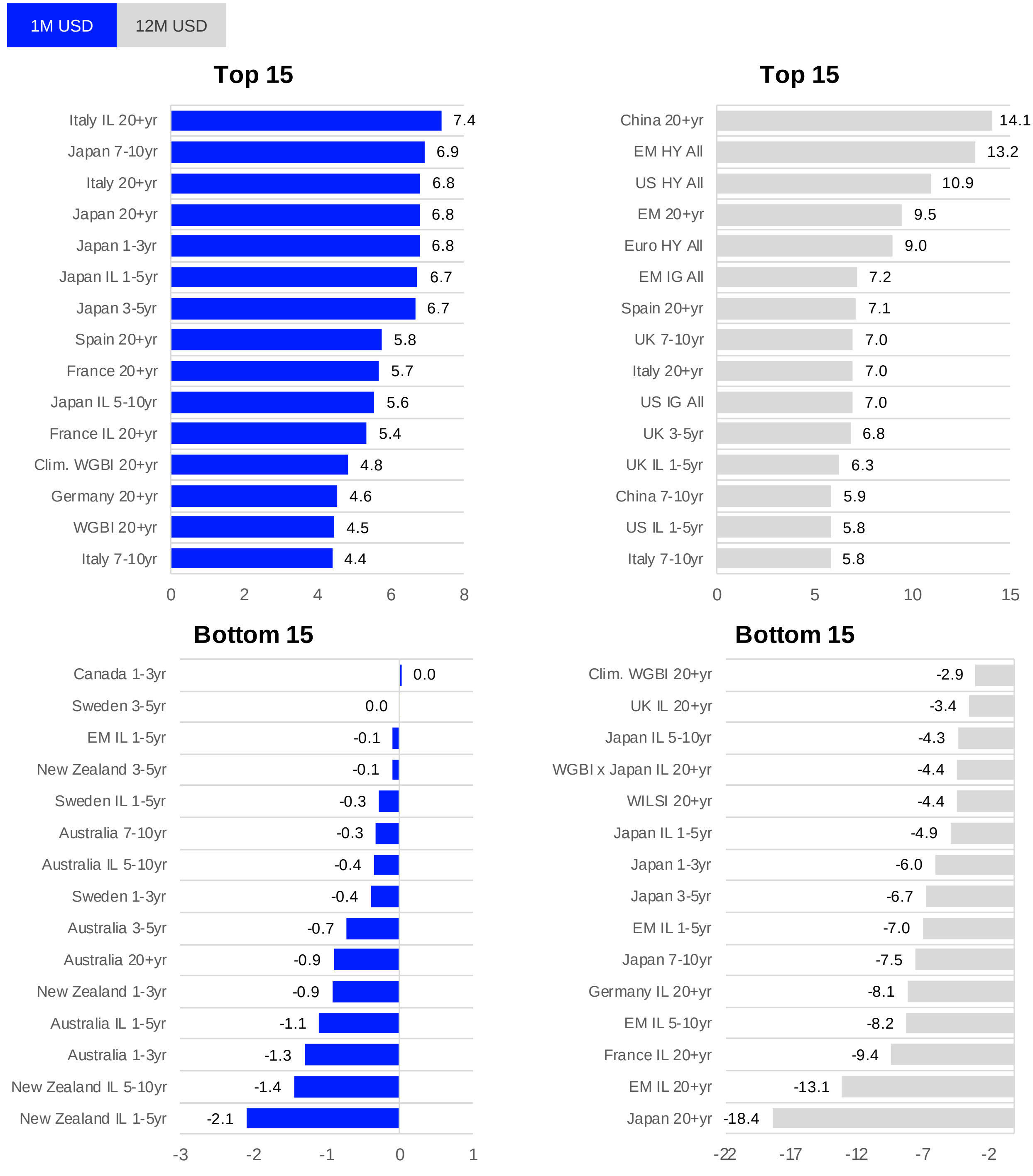
Top and Bottom Bond Returns − 1M & 12M % (USD, TR)

JGBs and long dated Italian govt bonds dominate the top 15 performers in July, with returns of up to 7% in dollar terms. Other Eurozone bonds, notably France and Spain did well, helped by the stronger Euro and hopes for further ECB policy easing. But yen weakness YTD and curve steepening after curve control ended drove losses of 18% in long JGBs.

NZ and Swedish govt bonds gave up some ground in July, after the strong Q2 performance. Above target inflation remains a constraint on early policy easing in Australia or New Zealand. The yen rally drove strong JGB returns.

YTD returns are led by HY credits. EM HY, US and Euro HY gained 9-13% in dollar terms, helped by the protracted risk rally, and strong correlation to equities. Long China govt bonds benefited from inflation near zero, and a series of PBoC rate cuts.



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Appendix − Global Bond Market Returns % (USD & LC, TR) – July 31, 2024

Government Bond Returns

Top 15% | Bottom 15%

Green highlight indicates highest 15%, red indicates lowest 15%.

		3M		6M		YTD		12M	
		Local	USD	Local	USD	Local	USD	Local	USD
US	1-3yr	2.43	2.43	2.01	2.01	2.38	2.38	5.36	5.36
	7-10yr	6.07	6.07	1.45	1.45	1.32	1.32	3.87	3.87
	20+yr	8.50	8.50	0.21	0.21	-2.51	-2.51	-1.42	-1.42
	IG All	4.97	4.97	2.04	2.04	2.03	2.03	6.96	6.96
	HY All	4.05	4.05	4.69	4.69	4.72	4.72	10.93	10.93
UK	1-3yr	1.97	4.60	1.84	2.72	1.70	2.47	5.69	5.51
	7-10yr	3.97	6.66	1.02	1.89	-0.80	-0.05	7.16	6.97
	20+yr	5.95	8.68	0.88	1.75	-4.69	-3.97	2.99	2.82
Euro	IG All	2.64	3.87	2.07	1.68	2.18	0.10	7.12	5.13
	HY All	2.71	3.94	3.47	3.07	4.43	2.29	11.06	9.00
Japan	1-3yr	-0.17	4.42	-0.42	-3.26	-0.47	-6.74	-0.49	-6.03
	7-10yr	-0.99	3.55	-1.97	-4.77	-2.45	-8.60	-2.09	-7.54
	20+yr	-5.09	-0.73	-7.48	-10.12	-10.10	-15.76	-13.64	-18.45
China	1-3yr	1.12	1.33	2.00	1.33	2.40	0.49	3.25	2.11
	7-10yr	2.46	2.66	3.96	3.28	5.10	3.14	7.06	5.87
	20+yr	4.92	5.12	7.12	6.41	11.21	9.14	15.38	14.09
EM	1-3yr	1.54	1.34	2.31	0.90	2.79	-0.10	4.26	1.67
	7-10yr	3.26	3.29	3.11	1.91	3.73	0.93	6.11	3.09
	20+yr	4.89	4.82	5.85	4.82	8.76	6.18	11.99	9.48
	IG All	4.14	4.14	3.32	3.32	3.35	3.35	7.17	7.17
	HY All	4.60	4.60	6.99	6.99	8.60	8.60	13.23	13.23
Germany	1-3yr	1.44	2.66	1.06	0.67	1.05	-1.01	3.25	1.34
	7-10yr	3.18	4.42	0.05	-0.33	-0.49	-2.52	4.16	2.23
	20+yr	4.49	5.74	-1.32	-1.69	-3.86	-5.83	3.20	1.28
Italy	1-3yr	1.67	2.89	1.46	1.07	1.66	-0.41	4.35	2.42
	7-10yr	3.00	4.24	2.45	2.06	2.68	0.59	7.80	5.80
	20+yr	3.30	4.55	3.90	3.50	3.60	1.48	8.99	6.97
Spain	1-3yr	1.50	2.72	1.35	0.96	1.51	-0.57	3.99	2.06
	7-10yr	2.97	4.21	1.81	1.42	1.44	-0.63	7.14	5.16
	20+yr	4.12	5.37	3.26	2.87	1.43	-0.64	9.15	7.13
France	1-3yr	1.44	2.66	0.90	0.51	0.87	-1.19	3.42	1.51
	7-10yr	1.71	2.94	-0.88	-1.26	-1.38	-3.39	3.74	1.82
	20+yr	0.72	1.93	-3.50	-3.87	-5.79	-7.72	2.60	0.70
Sweden	1-3yr	2.38	4.85	2.22	-1.45	2.21	-3.89	4.69	2.64
	7-10yr	4.66	7.18	2.70	-0.99	1.50	-4.55	7.31	5.21
Australia	1-3yr	1.49	2.06	1.60	0.37	1.97	-2.42	4.30	1.07
	7-10yr	3.47	4.05	1.52	0.28	1.45	-2.92	4.31	1.08
	20+yr	3.38	3.96	-1.12	-2.32	-2.69	-6.87	0.32	-2.78
New Zealand	1-3yr	2.64	3.02	3.44	-0.19	3.53	-2.88	6.74	1.87
	7-10yr	5.46	5.85	4.41	0.74	2.96	-3.42	8.12	3.18
	20+yr	7.24	7.64	3.40	-0.22	-0.74	-6.88	6.12	1.27
Canada	1-3yr	2.27	1.71	2.70	-0.67	2.59	-2.08	5.82	0.83
	7-10yr	6.06	5.48	3.35	-0.05	1.68	-2.94	6.65	1.61
	20+yr	10.43	9.83	2.73	-0.64	-1.95	-6.41	5.38	0.40

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Appendix − Global Bond Market Returns % (USD & LC, TR) – July 31, 2024

Inflation-Linked Bond Returns

Top 15% | Bottom 15%

Green highlight indicates highest 15%, red indicates lowest 15%.

		3M		6M		YTD		12M	
		Local	USD	Local	USD	Local	USD	Local	USD
US	1-5yr	2.84	2.84	2.73	2.73	3.19	3.19	5.83	5.83
	5-10yr	5.12	5.12	2.23	2.23	2.72	2.72	4.53	4.53
	20+yr	9.10	9.10	0.87	0.87	-0.23	-0.23	-1.87	-1.87
UK	1-5yr	1.78	4.41	2.11	3.00	1.36	2.12	6.45	6.27
	5-10yr	2.50	5.14	1.67	2.55	0.03	0.79	5.36	5.18
	20+yr	5.52	8.24	3.03	3.92	-6.19	-5.48	-3.27	-3.44
Japan	1-5yr	0.47	5.08	-0.25	-3.09	-0.22	-6.50	0.73	-4.88
	5-10yr	-0.73	3.83	-0.86	-3.68	-0.55	-6.82	1.33	-4.31
EM	1-5yr	2.95	-3.81	3.91	-6.15	4.88	-7.11	8.24	-6.98
	5-10yr	3.01	-2.77	1.38	-6.79	1.35	-8.68	4.72	-8.21
	20+yr	1.89	-5.28	-2.98	-12.16	-4.62	-15.30	-0.16	-13.09
Germany	1-5yr	1.10	2.32	1.03	0.64	0.78	-1.28	1.41	-0.47
	5-10yr	2.06	3.29	0.69	0.30	-0.13	-2.17	0.39	-1.47
	20+yr	1.74	2.96	-1.36	-1.74	-4.33	-6.29	-6.40	-8.14
Italy	1-5yr	1.54	2.76	1.67	1.29	1.68	-0.39	4.08	2.15
	5-10yr	1.86	3.08	2.95	2.55	2.78	0.68	4.64	2.70
	20+yr	-0.12	1.08	4.84	4.44	2.84	0.74	-0.60	-2.45
Spain	1-5yr	1.25	2.46	1.32	0.93	1.05	-1.01	2.51	0.61
	5-10yr	1.81	3.04	2.36	1.97	1.80	-0.28	3.65	1.73
France	1-5yr	0.83	2.04	0.04	-0.34	-0.12	-2.15	1.10	-0.78
	5-10yr	0.53	1.73	-0.64	-1.02	-1.41	-3.42	0.07	-1.78
	20+yr	-2.84	-1.67	-4.23	-4.60	-8.02	-9.90	-7.65	-9.36
Sweden	1-5yr	2.11	4.57	2.43	-1.25	2.03	-4.06	4.25	2.21
	5-10yr	3.18	5.66	3.58	-0.14	2.13	-3.97	5.46	3.39
Australia	1-5yr	1.39	1.96	1.77	0.53	1.72	-2.66	4.84	1.60
	5-10yr	2.27	2.84	1.41	0.18	1.00	-3.34	5.29	2.03
	20+yr	1.83	2.41	-2.24	-3.43	-6.14	-10.18	0.42	-2.69
New Zealand	5-10yr	3.25	3.63	4.43	0.76	3.48	-2.93	8.44	3.49
Canada	20+yr	10.55	9.94	6.88	3.37	2.53	-2.13	8.35	3.23

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Appendix − Global Bond Market Returns % (USD & LC, TR) – July 31, 2024

Global Bond Yields

Top 15% | Bottom 15%

Green highlight indicates top 15%, red indicates bottom 15%.

		Conventional government bonds				Inflation-linked bonds			Inv Grade	High Yld
		1-3YR	3-5YR	7-10YR	20+YR	1-5YR	5-10YR	20+YR	All Mat	All Mat
US	Current	4.38	3.99	4.02	4.42	2.13	1.77	2.12	5.16	7.81
	3M Ago	5.09	4.80	4.69	4.85	2.41	2.24	2.44	5.75	8.22
	6M Ago	4.33	3.93	3.93	4.31	1.98	1.64	2.01	5.14	7.97
	12M Ago	5.01	4.33	3.97	4.11	2.44	1.72	1.80	5.50	8.36
UK	Current	4.19	3.82	3.89	4.47	0.27	0.37	1.25		
	3M Ago	4.64	4.31	4.28	4.72	0.30	0.49	1.38		
	6M Ago	4.21	3.73	3.75	4.39	0.16	0.21	1.25		
	12M Ago	5.04	4.69	4.25	4.39	1.86	0.65	1.00		
Japan	Current	0.37	0.57	0.94	2.11	-1.19	-0.59			
	3M Ago	0.21	0.39	0.76	1.86	-1.21	-0.76			
	6M Ago	0.04	0.20	0.59	1.73	-1.65	-0.83			
	12M Ago	-0.04	0.08	0.50	1.40	-1.70	-0.74			
China	Current	1.53	1.76	2.10	2.38					
	3M Ago	1.89	2.06	2.34	2.61					
	6M Ago	2.07	2.22	2.46	2.70					
	12M Ago	2.08	2.34	2.66	3.04					
EM	Current	3.19	3.48	4.18	3.73	5.77	5.23	5.69	5.41	7.93
	3M Ago	3.42	3.86	4.56	3.94	5.65	5.21	5.67	6.01	9.15
	6M Ago	3.34	3.81	4.64	4.17	4.38	4.41	5.03	5.58	9.35
	12M Ago	3.58	4.17	4.80	4.41	3.05	4.07	4.88	5.92	11.65
Germany	Current	2.62	2.25	2.21	2.50	1.57	0.40	0.43		
	3M Ago	3.08	2.67	2.53	2.69	1.12	0.46	0.43		
	6M Ago	2.57	2.07	2.06	2.38	0.81	0.20	0.27		
	12M Ago	3.09	2.60	2.41	2.53	0.60	0.07	0.01		
Italy	Current	2.99	2.97	3.43	4.10	1.45	1.58	1.87		
	3M Ago	3.45	3.38	3.68	4.24	1.25	1.54	1.79		
	6M Ago	2.96	2.93	3.47	4.21	1.08	1.58	1.94		
	12M Ago	3.60	3.55	3.86	4.35	1.30	1.64	1.69		
France	Current	2.78	2.68	2.87	3.40	0.98	0.81	1.05		
	3M Ago	3.17	2.93	2.96	3.39	0.72	0.65	0.86		
	6M Ago	2.62	2.34	2.52	3.13	0.44	0.37	0.78		
	12M Ago	3.15	2.90	2.90	3.35	0.58	0.37	0.60		
Sweden	Current	2.15	1.96	1.98		0.95	0.51			
	3M Ago	3.14	2.68	2.50		1.60	0.85			
	6M Ago	2.68	2.21	2.18		1.26	0.76			
	12M Ago	3.33	2.83	2.57		0.96	0.74			
Australia	Current	3.86	3.76	4.07	4.62	1.38	1.56	2.04		
	3M Ago	4.16	4.05	4.36	4.75	1.40	1.71	2.06		
	6M Ago	3.69	3.60	3.97	4.42	1.04	1.39	1.81		
	12M Ago	4.02	3.86	4.03	4.40	1.03	1.47	1.79		
New Zealand	Current	4.21	4.04	4.31	4.81	2.47	2.21			
	3M Ago	5.16	4.77	4.85	5.17	2.29	2.51			
	6M Ago	4.89	4.44	4.55	4.87	1.72	2.39			
	12M Ago	5.21	4.80	4.70	4.87	1.94	2.39			
Canada	Current	3.64	3.11	3.15	3.23	1.41	1.34	1.52		
	3M Ago	4.47	3.92	3.82	3.70	1.97	1.98	1.90		
	6M Ago	4.21	3.50	3.36	3.28	1.55	1.60	1.72		
	12M Ago	4.76	4.02	3.56	3.33	2.11	1.80	1.69		

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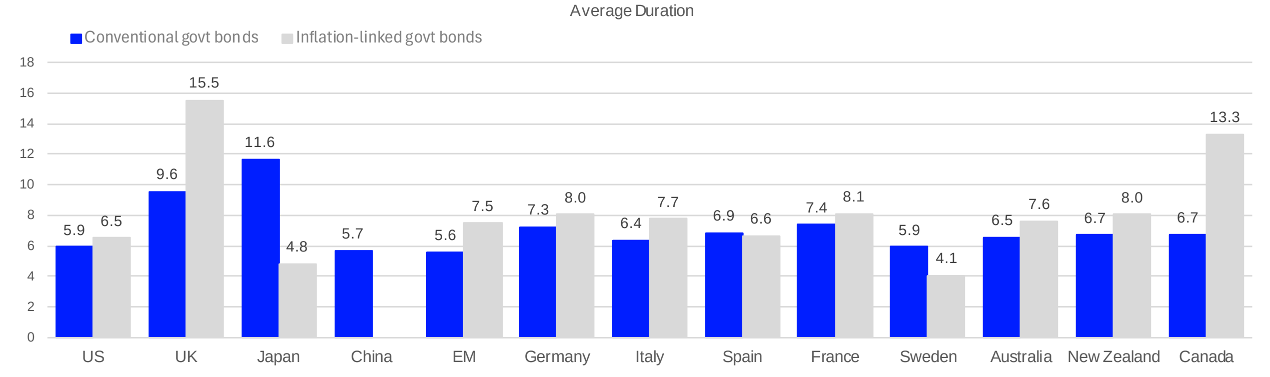
Appendix – Duration and Market Value (USD, Bn) as of July 31, 2024

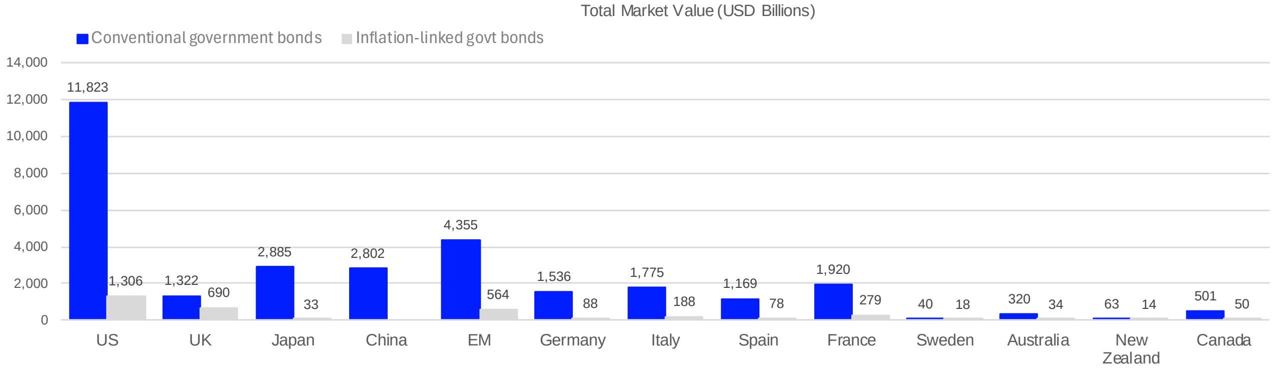
	Conventional government bonds								Inflation-linked government bonds					
	Duration				Market Value				Duration			Market Value		
	3-5YR	7-10YR	20+YR	Overall	3-5YR	7-10YR	20+YR	Total	5-10YR	20+YR	Overall	5-10YR	20+YR	Total
US	3.7	7.2	16.6	**5.9**	2,814.6	1,192.3	1,401.1	**11,823.0**	7.0	21.4	**6.5**	418.9	115.1	**1,306.3**
UK	3.6	7.3	18.5	**9.6**	174.5	219.0	335.2	**1,321.9**	7.7	27.3	**15.5**	122.2	235.2	**689.9**
Japan	4.0	8.2	23.2	**11.6**	344.5	385.0	588.9	**2,885.2**	7.8		**4.8**	12.1		**33.4**
China	3.8	7.7	18.0	**5.7**	658.6	439.8	319.2	**2,801.8**						
EM	3.7	7.1	16.4	**5.6**	945.9	737.1	416.4	**4,354.8**	5.9	13.2	**7.5**	92.0	149.2	**563.8**
Germany	3.6	7.6	20.2	**7.3**	356.1	220.3	201.0	**1,536.1**	6.4	20.9	**8.0**	44.2	18.3	**88.2**
Italy	3.5	7.1	16.3	**6.4**	307.1	250.1	165.5	**1,775.2**	7.4	25.5	**7.7**	57.3	5.7	**187.7**
Spain	3.7	7.4	17.6	**6.9**	240.4	214.3	118.1	**1,168.8**	7.4		**6.6**	49.3		**78.1**
France	3.8	7.6	19.6	**7.4**	434.4	326.5	235.4	**1,920.4**	6.2	23.8	**8.1**	88.1	21.3	**278.8**
Sweden	3.7	7.8		**5.9**	6.7	9.9		**40.3**	6.5		**4.1**	5.8		**18.2**
Australia	3.8	7.4	16.7	**6.5**	47.4	97.3	20.0	**319.5**	6.4	21.7	**7.6**	10.5	2.8	**34.3**
New Zealand	4.0	7.3	16.2	**6.7**	12.9	16.9	5.3	**62.8**	5.6		**8.0**	3.2		**14.1**
Canada	3.7	7.6	19.6	**6.7**	73.5	114.3	71.9	**501.2**	6.4	20.5	**13.3**	8.2	20.5	**49.6**

	Investment grade bonds										High Yield	
	Duration					Market Value					Duration	MktVal
	AAA	AA	A	BBB	Overall	AAA	AA	A	BBB	Overall		
US	10.3	8.4	7.2	6.6	7.0	77.3	451.6	2817.6	3537.7	6884.3	3.8	1076.0
Europe	6.2	4.9	4.6	4.2	4.4	15.3	222.3	1233.0	1590.4	3060.9		
EM		6.8	5.3	5.6	5.5		38.0	218.9	250.4	507.3	3.5	190.1

Average Duration



Total Market Value (USD Billions)



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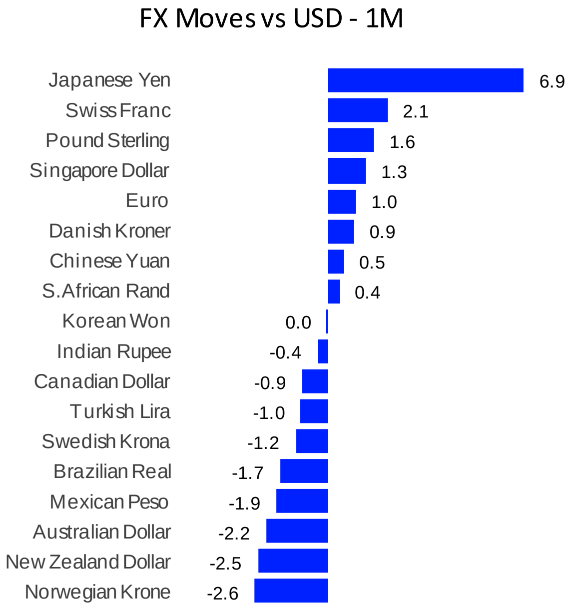
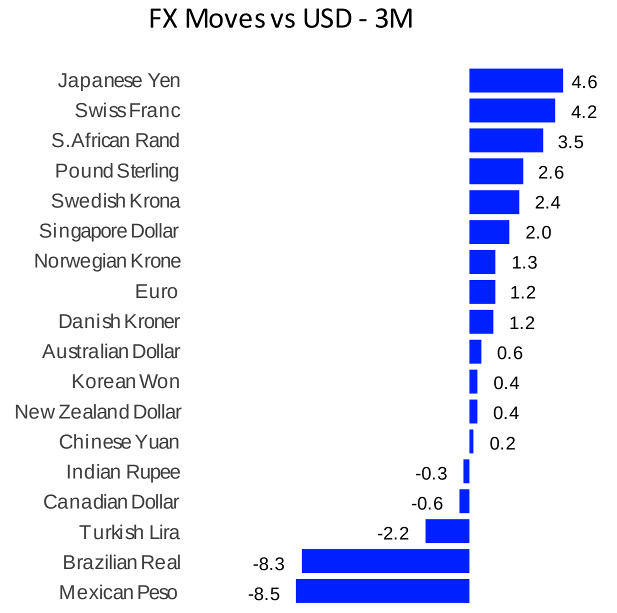
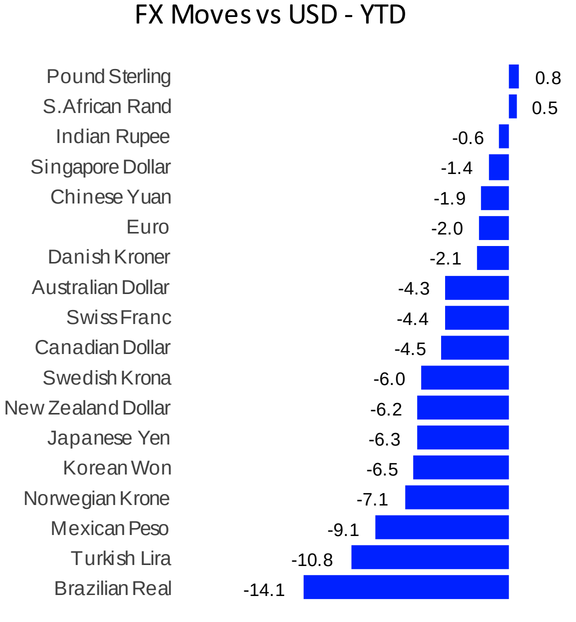
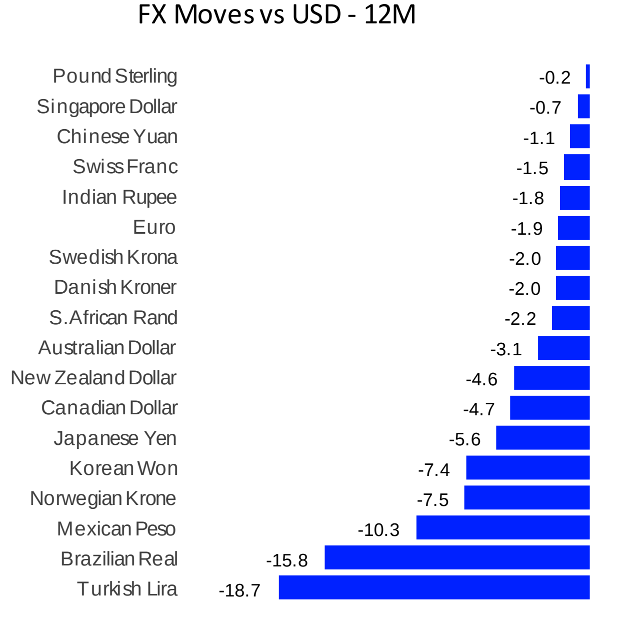
Appendix – Foreign Exchange Returns % as of July 31, 2024









Source: FTSE Russell and LSEG. All data as of July 31, 2024. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Appendix − Glossary

Bond markets are based on the following indices:

FTSE World Government Bond Index (WGBI) for all global government bond markets

FTSE World Inflation-Linked Securities Index (WorldILSI) for all global inflation-linked bond markets

FTSE US Broad Investment-Grade Bond Index (USBIG®) for the US corporate bond market

FTSE US High-Yield Market Index for the US high yield bond market

FTSE Euro Broad Investment-Grade Bond Index (EuroBIG®) for the Euro-denominated corporate bond market

FTSE European High-Yield Market Index for the European high yield market

FTSE Chinese Government and Policy Bank Bond Index (CNGPBI) for the Chinese government bond market

FTSE Emerging Markets Inflation-Linked Securities Index (EMILSI) for the emerging markets inflation-linked bond market

FTSE Emerging Markets Government Bond Index (EMGBI) for the emerging markets government bond market. Please note that over 50% of this index is invested in China

FTSE Emerging Markets Broad Bond Index (EMUSDBBI) for the emerging markets corporate bond market

FTSE ESG World Government Bond Index for the global government bond markets with an ESG tilt

FTSE Climate Risk-Adjusted World Government Bond Index (Climate WGBI) and FTSE Advanced Climate Risk-Adjusted World Government Bond Index (Advanced Climate WGBI) for each country's relative exposure to climate risk, with respect to resilience and preparedness to the risks of climate change

List of Abbreviations used in charts:

IL = Inflation-linked bonds

IG = Investment-grade bonds

HY = High-yield bonds

BPS = Basis points

EM = Emerging market

LC = Local currency

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