Global Investment Research
Market Maps

Fixed Income Insights

MONTHLY REPORT – **JANUARY 2024 | GBP EDITION**

FOR PROFESSIONAL INVESTORS ONLY

Fed pivots but BoE still faces stagflation challenge

After the Fed pivot, markets now discount faster, and much more, easing than implied by the Fed dot plots or BoE minutes, risking disappointment. Easing in UK fiscal policy and sticky inflation may also delay lower UK rates. Q4's rally erased most 2023 losses, with Bunds and shorter gilts the best perfomers, and JGBs the weakest.

Macro and policy backdrop – Fed pivot drives substantial re-pricing of 2024 G7 rate outlook

Mind the gap! Markets discount sizeable rate cuts in 2024, including the UK, despite BoE caution and sticky wage and core inflation. Fiscal easing ahead of the forthcoming UK General Election may also delay lower rates. (pages 2-3)

Yields, curves and spreads – Yield curves bull flattened in Q4, and US spreads tightened

Markets continue to front-run central bank easing, as in 2023, driving bull inversions. Treasury spreads tighten. (pages 4-5)

Credit and MBS analysis – Credit benefits from risk appetite recovery, led by HY

Recovery in risk appetite, low defaults drove spreads tighter. Convexity challenge for MBS investors after US rally. (page 6)

Sovereign and climate bonds – Climate WGBI outperformed, helped by duration

Duration boosted Climate and adjusted-Climate WGBI, despite lower US weight, as curves bull flattened. (page 7)

Performance – Bunds and shorter gilts outperformed in 2023. Q4 rally erased most 2023 losses, apart from JGBs

The powerful Q4 rally drove strong gains in longer duration govts, and a weaker US dollar. Credits rallied further. (pages 9-10)

Appendix (from page 11)

Global bond market returns, historical bond yields, bond market durations and market values and foreign exchange returns.

Chart 1: 2023 proved a year of divergence and disinflation. Gilt and Bund yields fell, reflecting weaker European growth vs US.

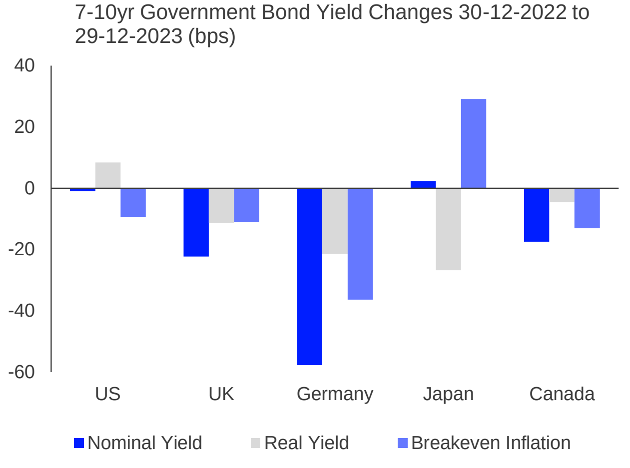
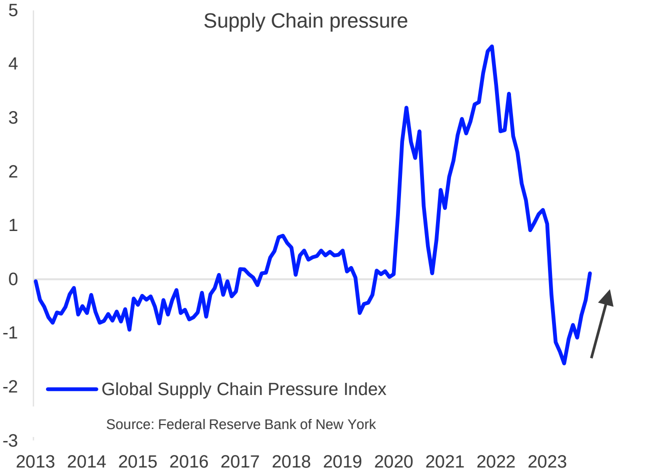


Chart 2: Evidence the 2022 inflation shock was supply-driven is found in supply chain indices. The recent uptick is therefore of note.



Source: FTSE Russell and Lipper. Data available as of December 31, 2023. 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 for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Macroeconomic Backdrop – Growth and Inflation Expectations

The Fed pivot and Q4 disinflation fuelled expectations of aggressive G7 easing in 2024, including the UK, despite sticky core inflation, and central bank caution. After no recession in 2023, forecasters are reluctant to forecast one in 2024, despite near-zero UK growth, and lags in the impact of 2022-23 tightening. Squeezing inflation from 3% to 2% may prove challenging, given typical inflation inertia. Easing in energy prices in 2023 has been a key driver in disinflation, though geo-political risks have increased.

Despite stronger US growth versus Europe in 2023, consensus forecasts show the differential narrowing in 2024, with US growth falling back towards 1% (Chart 1). Easing in financial conditions since November may not be reflected in forecasts. UK growth may benefit from easing in fiscal policy in 2024, given a General Election is due by January 2025. Risks to growth in Europe are skewed to the downside, according to the BoE and ECB, but the greatest uncertainty surrounds the Chinese outlook.

Headline inflation fell sharply in Q4, 2023 - see Chart 2 - to 3.9% y/y in the UK in November, with core inflation also lower, but still at 5.1% y/y. The theory that the last 1-2% reduction in inflation has higher output costs than earlier disinflation will now be tested in the UK, with the economy barely growing. An energy price increase of 5% this month, and base effects will not help the BoE, though food discounting for Christmas may help the December figure. The BoE is not forecasting inflation at the 2% target until 2025.

The UK labour market has softened in recent months, but labour shortages have kept unemployment rates low, despite very weak growth. Apart from the inverted yield curve (see page 4) there are few outright recession signals. Wage growth has moderated to 7.2% but the BoE will need to see further easing before considering a rate cut. A clear risk in 2024 is that the full impact of 2022-23 tightening may be felt then, given the 12-18 month lags in previous cycles, but that is currently offset by the easing in financial conditions.

Easing in oil prices is providing welcome relief to the BoE in its attempts to reduce inflation, as Chart 4 shows. Prices have trended lower since the Ukraine shock in Q1, 2022, reflecting weaker global demand, as growth has slowed after OECD policy tightening, and the higher share of US production. A correspondingly lower share of OPEC production in global supply has made it more difficult for OPEC to exert price control, as well. However, geo-political risks in the middle east remain a risk.

Chart 1: Consensus forecasts show slower US growth vs Europe in 2024, reversing 2023's pattern, and no UK recession. This may reflect easing in UK fiscal policy, ahead of a general election, which is due by January 2025.

Latest Consensus Real GDP Forecasts (%, December 2023)			
	2022	**2023**	**2024**
US	2.1	**2.4**	**1.2**
UK	4.1	**0.5**	**0.4**
Eurozone	3.3	**0.5**	**0.6**
Japan	1.6	**1.6**	**0.8**
China	3.0	**5.0**	**4.5**
Canada	3.5	**1.1**	**0.7**

Chart 2: Regional inflation rates show some convergence towards 2% target levels in headline inflation, though core inflation remains stickier, at nearer 4%. The UK and China remain outliers globally.

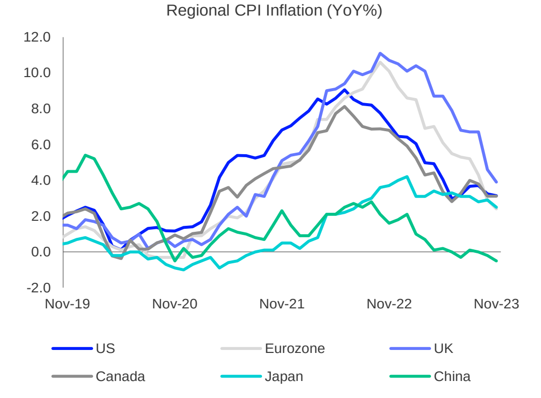


Chart 3: UK unemployment has stabilised at 4.2%, despite weak growth and signs of wage growth falling back (to 7.2% y/y) will be welcome to the BoE but further fall are needed for a rate cut.

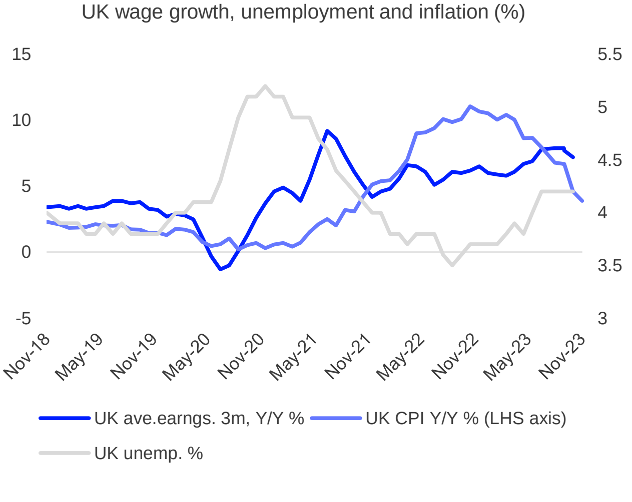
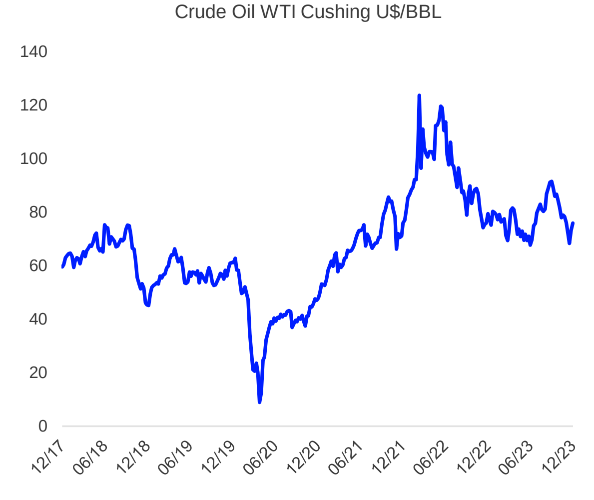


Chart 4: Oil prices trended lower since the Ukraine shock in Q1, 2022, as global demand weakened after OECD policy tightening, and a higher share of non-OPEC production reduced the effectiveness of OPEC quotas.



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Financial Conditions and Monetary Policy Settings

Financial conditions eased considerably in the G7 in Q4, with US conditions returning to levels last seen when the Fed began raising rates (March 2022), driven by the Fed pivot and Q4 risk rally. The BoE cooled expectations of early UK rate cuts. Narrower rate differentials drove the dollar lower, but weak European and Chinese curbed the sell-off. Previous cycles show 10yr yields fell before Fed easing, but these cycles were driven by deflationary shocks, not gradual disinflation.

Lower US yields, tighter credit spreads and higher equities drove significant easing in US financial conditions (FCs) in Q4, despite policy rates at cycle highs. FCs are now near Q1, 2022 levels, when the Fed began raising rates (Chart 1). Markets have eased significantly for the Fed, reinforced by FOMC dot plots showing median FOMC rate expectations falling 75bp in 2024.The risk now is market expectations of more than 100-125bp in 2024 easing are disappointed, as in 2023, given the economy is not recessionary.

The US dollar fell in December (Chart 2) after the Fed pivot towards easing, on rate differentials likely shrinking against other G7 currencies. The yen's recovery gained momentum after the Fed pivot, as investors focused on the BoJ possibly ending negative rates in January. Sterling drew support from hawkish BoE signalling (see below), though weak UK growth has tempered gains.

Further evidence of de-synchronized G7 policy cycles emerged in December. US disinflation enabled the Fed to pivot towards 2024 easing, with 75bp of easing implied in median FOMC dot plots, despite sticky core inflation. But the BoE and ECB did not discuss rate cuts, as they remain firmly on hold, as does the BoC. The BoJ moved closer to ending curve control, however.

In previous US policy cycles, Chart 4 shows US 10Y yields generally fell before Fed easing. Front-running the Fed eventually paid off for investors, even if "false dawns" were common, in which declines in 10Y yields were not validated at all, or for some months, e.g., 2005-07, 2018-19 & 2022-23. Recent easing cycles were driven by exogenous *deflationary* shocks, so differ from the current cycle.

Chart 1: When is a tightening not a tightening? Market anticipation of easing, tighter spreads and lower bond yields loosened G7 financial conditions, so they are where they were when the Fed began raising rates in 2022.

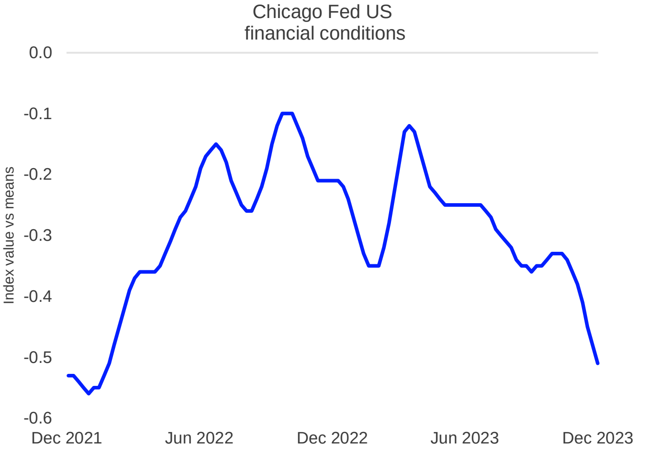


Chart 2: The dollar fell after the Fed pivot, though its fall was restricted by FOMC members cooling easing expectations and hopes for easier ECB policy. The yen rallied as investors mulled the end of curve control.

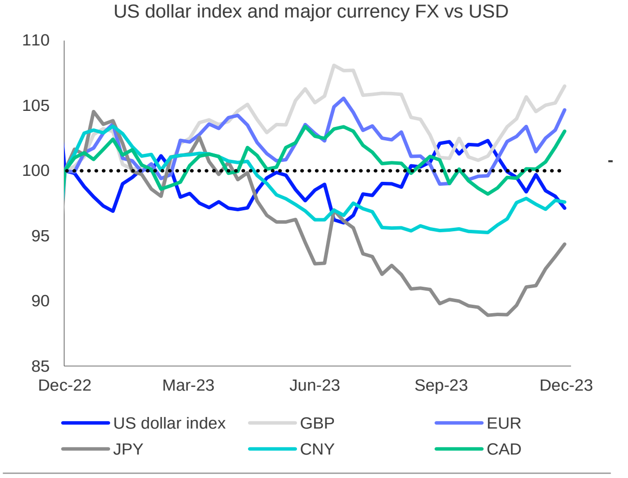


Chart 3: Further signs of an un-coordinated G7 monetary policy cycle emerged in December after the Fed pivoted towards easing, while the BoE, ECB and the BoC remained firmly on hold.

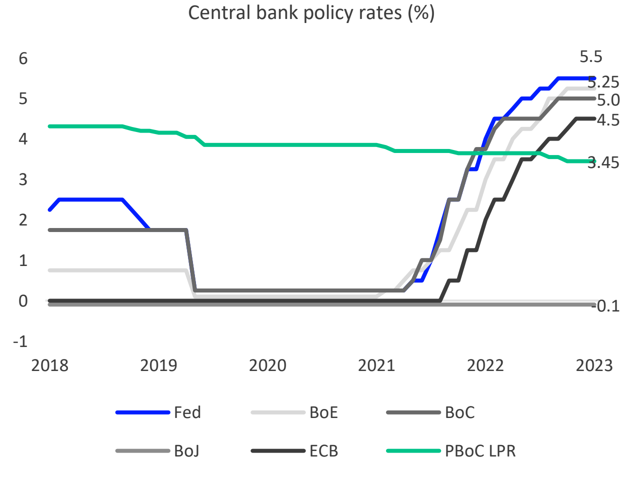
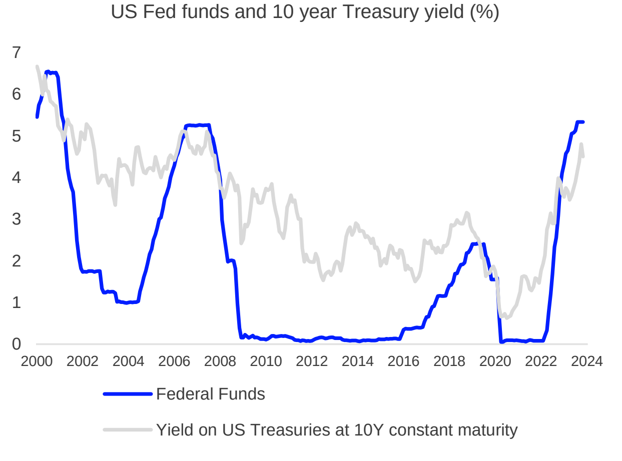


Chart 4: Front-running the Fed has generally paid, with some exceptions, notably mid-2023, when the Fed promptly raised rates again. But 10yr yield moves have generally preceded Fed policy moves.



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Global Yields, Curves and Spread Analysis

Chart 1: Q4, notably December, saw a rapid decline in bond yields, erasing 12 months of rises. Disinflation and expectations of policy easing in 2024, after the Fed pivot, were the main drivers.

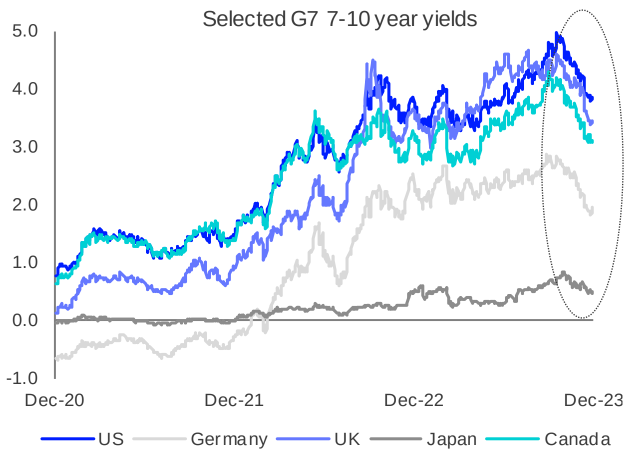


Chart 2: Excluding Japan, real yields also fell sharply in Q4, reflecting weaker real growth as global economic activity feels the impact of the sharp rate rises during 2023.

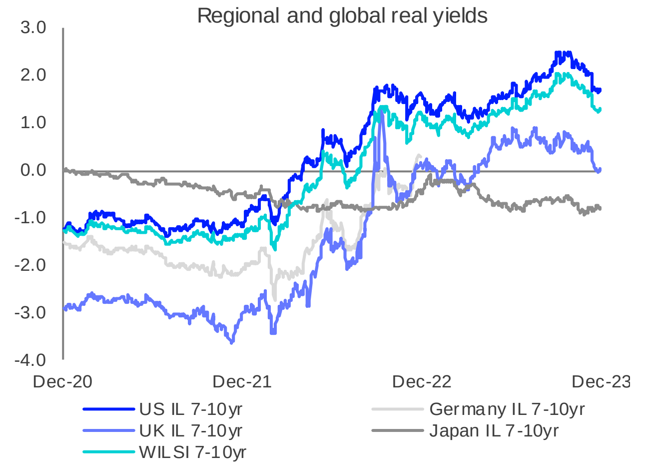


Chart 3: Yield curves have remained deeply inverted, after G7 curves bull flattened, with the Canadian yield curve the most inverted. Even the Japanese yield curve bull flattened, as inflation fell, and the yen rallied.

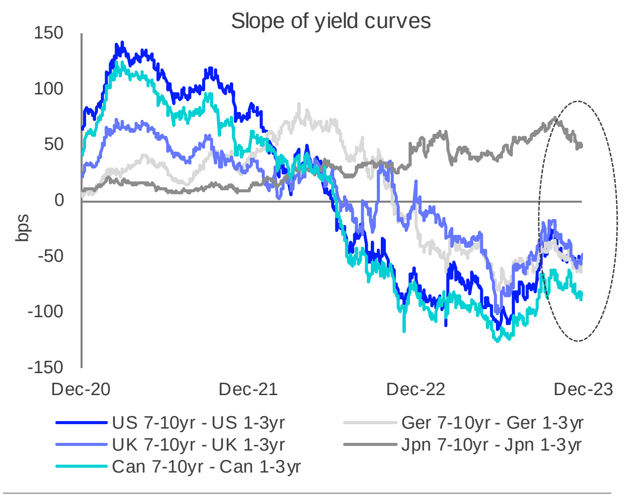


Chart 4: Most long G7 yield curves remained inverted in Q4, though the UK curve remains close to flat. The Canadian curve remained more inverted than peers and dis-inverted less in 2023.

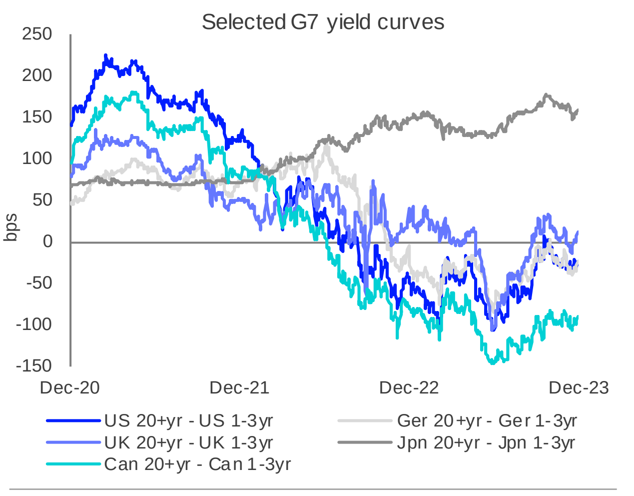


Chart 5: G7 inflation breakevens fell in Q4, remaining correlated with (lower) spot inflation. Japanese breakevens fell sharply, as the 2022-23 increase in inflation began to unwind and investors favoured nominal bonds.

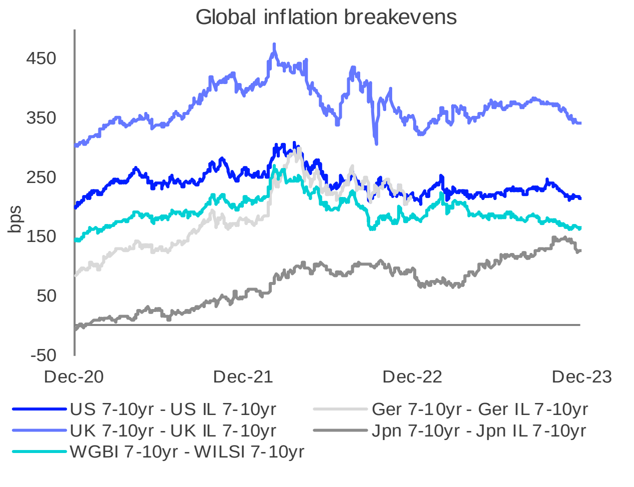
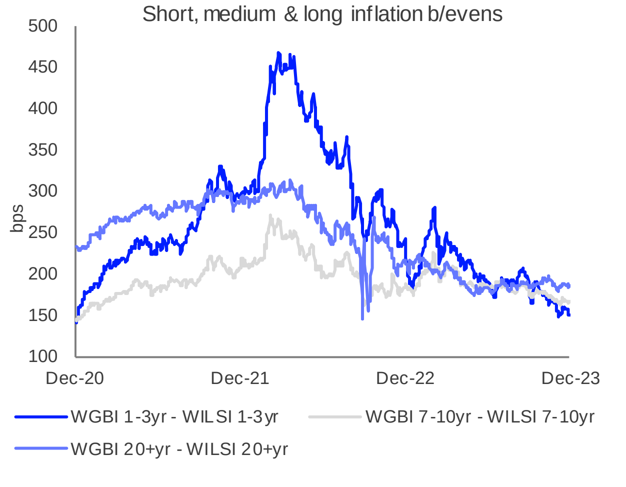


Chart 6: Global breakevens have fallen to pre-2020 levels, after global inflation eased on weaker economic growth and lower energy costs. Food inflation, while still high, has also eased.



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Yield Spread and Credit Spread Analysis

Chart 1: US sovereign spreads proved pro-cyclical in 2023, rising as yields increased until October, before falling in Q4, although the decline in spreads is less marked than during Covid, particularly versus UK gilts.

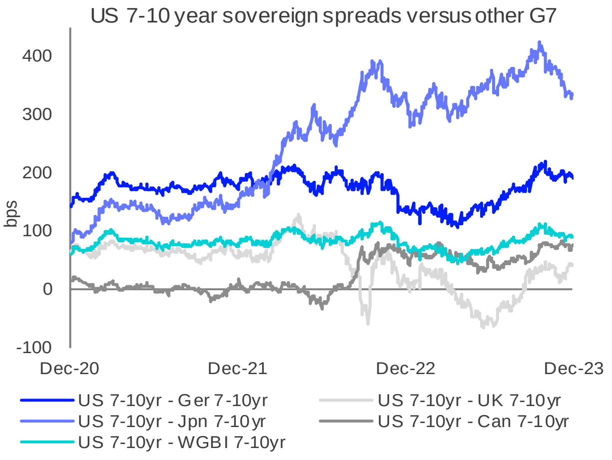


Chart 2: Italian spreads fell in Q4, though mostly versus JGBs. ECB President Lagarde stressed the ECB's commitment to successful policy transmission at the Dec. press conference, which helped BTP spreads.

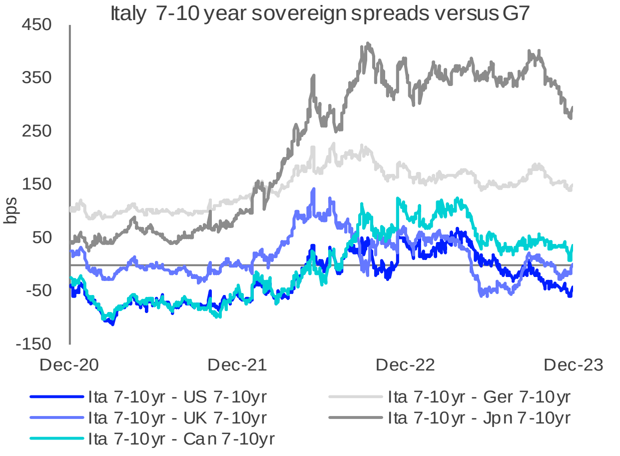


Chart 3: EM spreads widened in December, as the G7 bond market rally gathered momentum, excluding JGBs, where yields fell less. Spillover effects from lower US Treasury yields may help EM spreads in Q1.

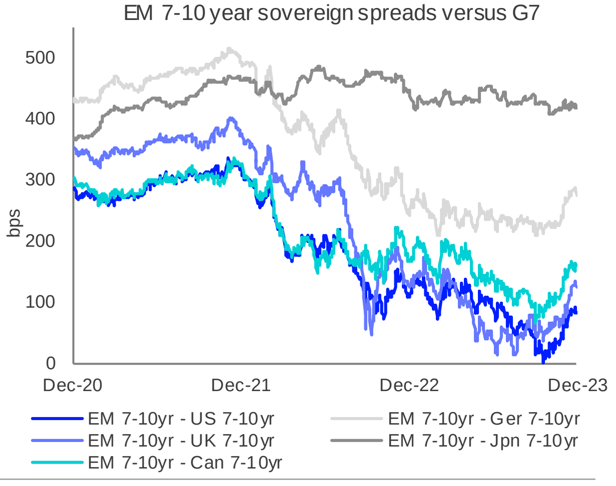


Chart 4: Chinese spreads versus the G7 have trended lower since 2020. They have generally been counter-cyclical, rising when G7 yields fall (Q4) and vice versa. This offers portfolio diversification benefits to investors.

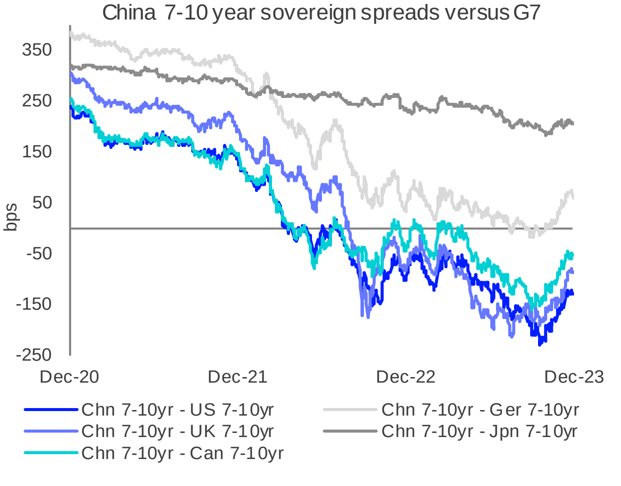


Chart 5: Credit spreads fell in Q4, led by High Yield, as the Fed pivot helped the G7 recovery in risk appetite, and risk assets rallied. High yield generally outperformed IG in 2023, despite near-recessions in Europe.

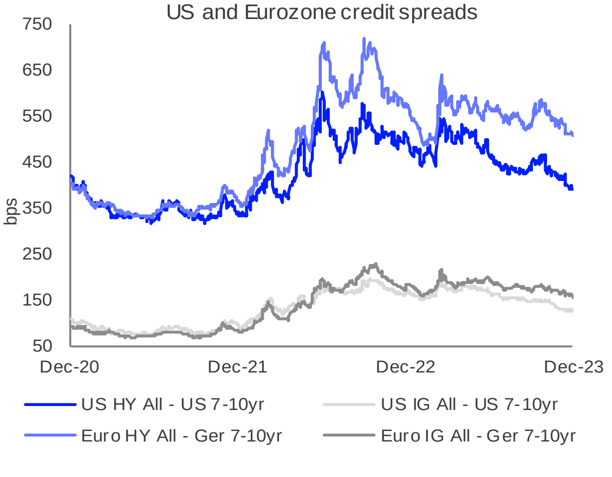
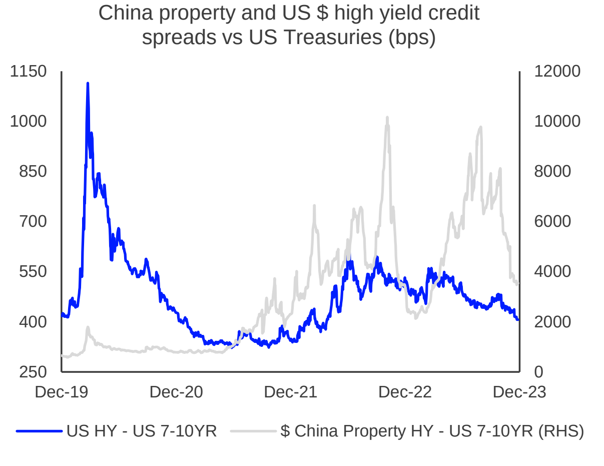


Chart 6: Chinese $ HY spreads eased further in December to 3500bps, a level last seen a year ago. US HY spreads tightened by about 120bps during 2023 as risk appetite recovered.



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Credit sector and MBS analysis

Chart 1: UK IG spreads show outperformance by consumer credits, and the volatility of insurance sector spreads, after the Ukraine shock. Consumer spreads are now at post-Covid lows.

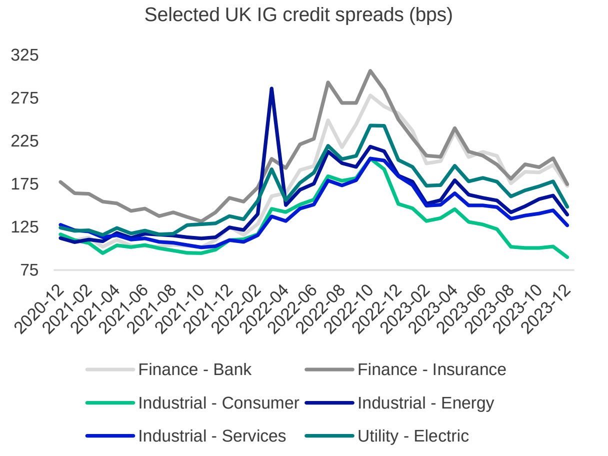


Chart 2: US IG spreads tightened further in December, as the risk rally gathered momentum after the Fed pivot. Energy credits joined the rally, despite lower oil prices. Consumer spreads tightened most in 2022-23.

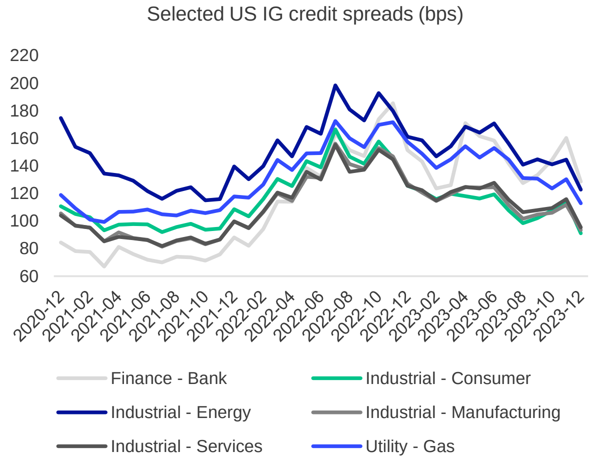


Chart 3: Eurozone IG spreads have broadly matched US IG spreads, and insurance sector spreads are getting close to pre-Ukraine shock levels. Like the US and UK, consumer credits have outperformed.

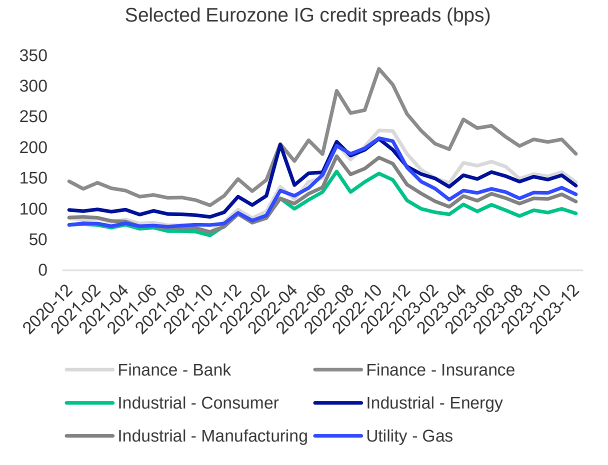


Chart 4: US IG real estate spreads have tightened, after mortgage rates fell, but remain well above 2021 levels, as retail moves online, and office space demand fell with more working from home, post-Covid.

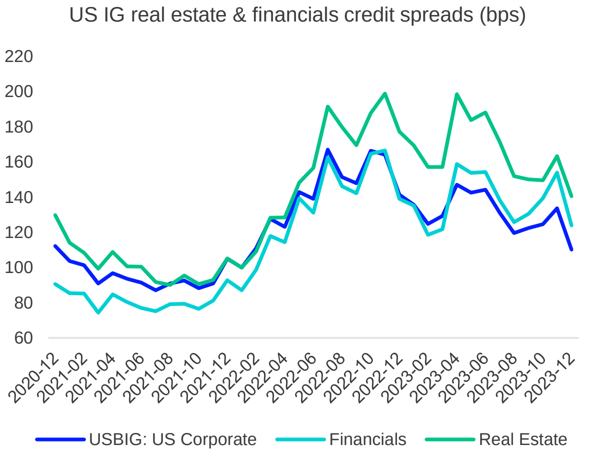


Chart 5: RMBS duration increased as prepayments collapsed in 2022. RMBS investors hedged duration risk by selling Treasuries. But this may reverse, if lower yields drive faster prepayments and lower RMBS duration.

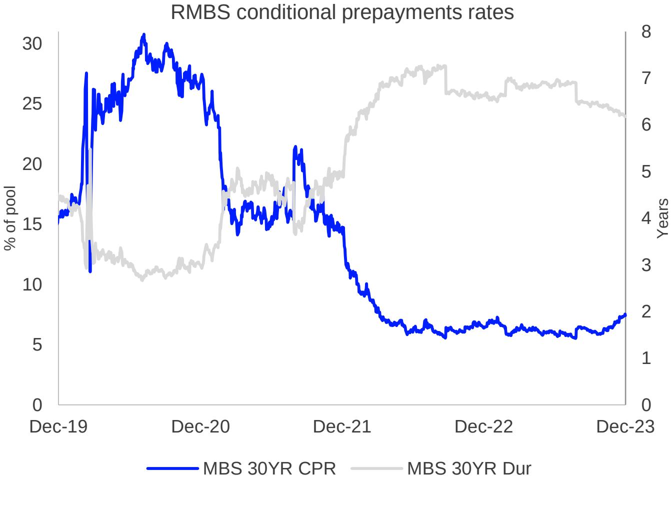
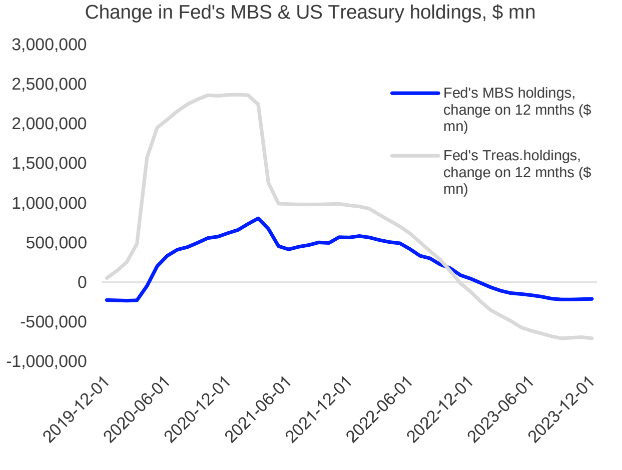


Chart 6: The reduction in the Fed's RMBS holdings slowed as higher mortgage rates drove lower prepayments, and RMBS run-offs, which averaged only $17 billion in the last four months (Fred data).



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Sovereign and Climate Bonds Analysis

Chart 1: The recovery in Emerging Markets ESG is the most striking 2023 move, and reflects a high Eastern Europe weight. Re-balancing of the ACWGBI towards Europe helped it recover in 2023, as Bunds rallied.

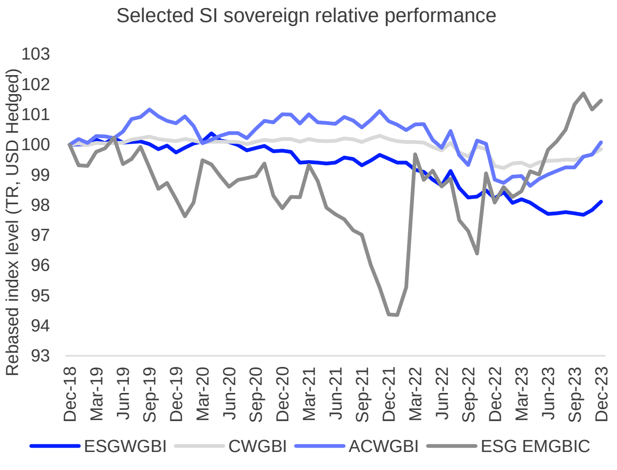


Chart 2: ESG WGBI has a higher US weighting, and big underweight in China, reflected in its spread widening in 2022-23. Outperformance by Eurozone bonds drove ACWGBI spreads tighter, after the re-weighting.

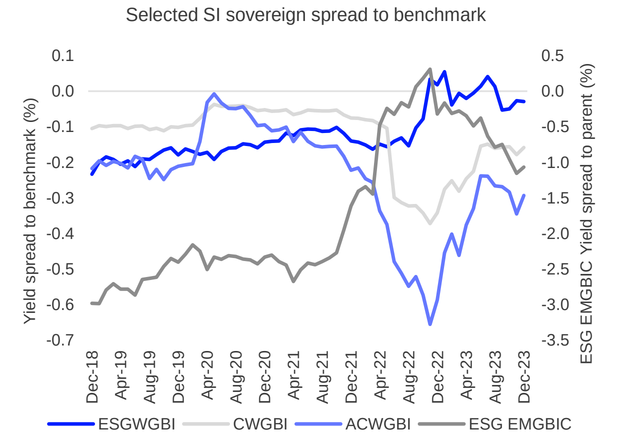


Chart 3: Paris-aligned PAB Corp outperformed strongly early in Covid, after oil prices collapsed, but has underperformed since. More subtly tilted indices, like Choice Corp, have been more stable.

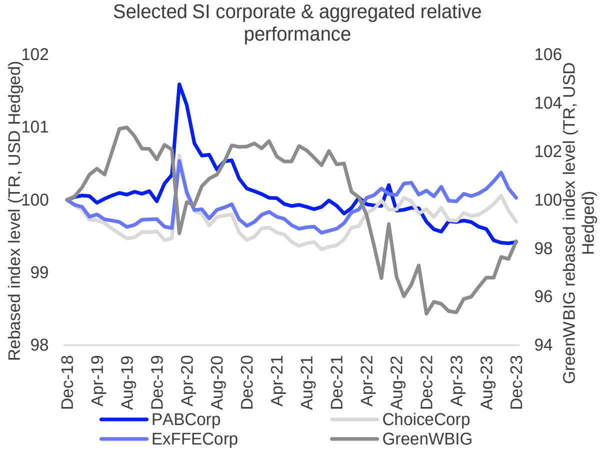


Chart 4: Spread widening in Green corporates in 2022/23 reflects heavy issuance but this reversed in 2023. The Paris-aligned PAB Corp is tilted away from fossil-fuels, so reflects energy price moves.

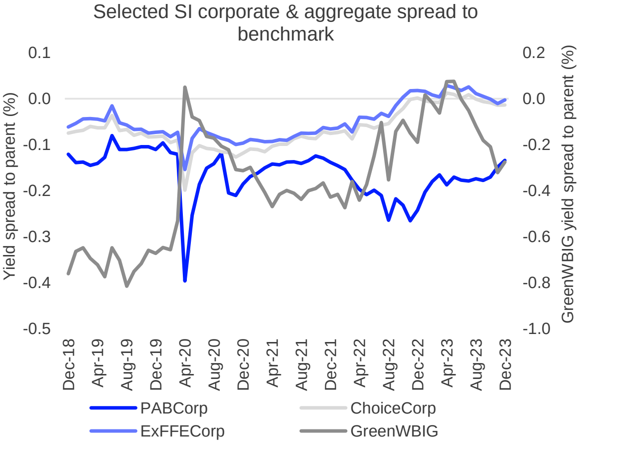


Chart 5: Extra duration in Climate WGBI helped it vs WGBI, as sovereign curves bull flattened in Bunds and JGBs in Q4. But this was offset by WGBI's heavier US weight and tighter US spreads.

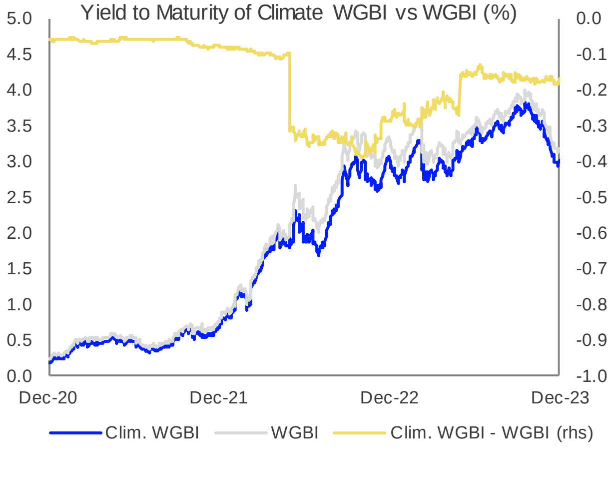
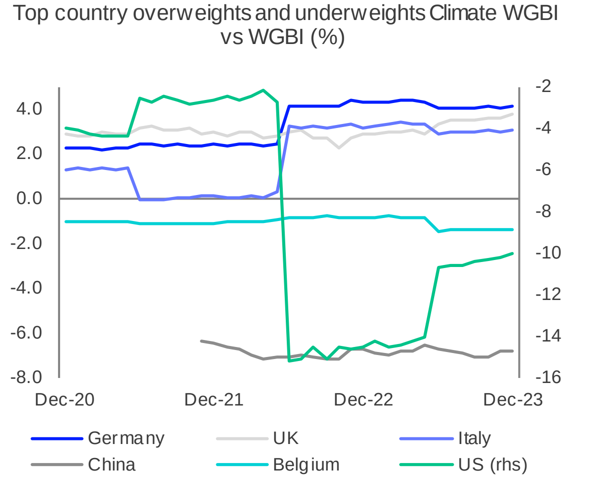


Chart 6: Changes in country weights in Climate WGBI (CW) impacted performance; the underweight in China & overweight in Europe caused the underperformance of CW vs WGBI in 2022-23.



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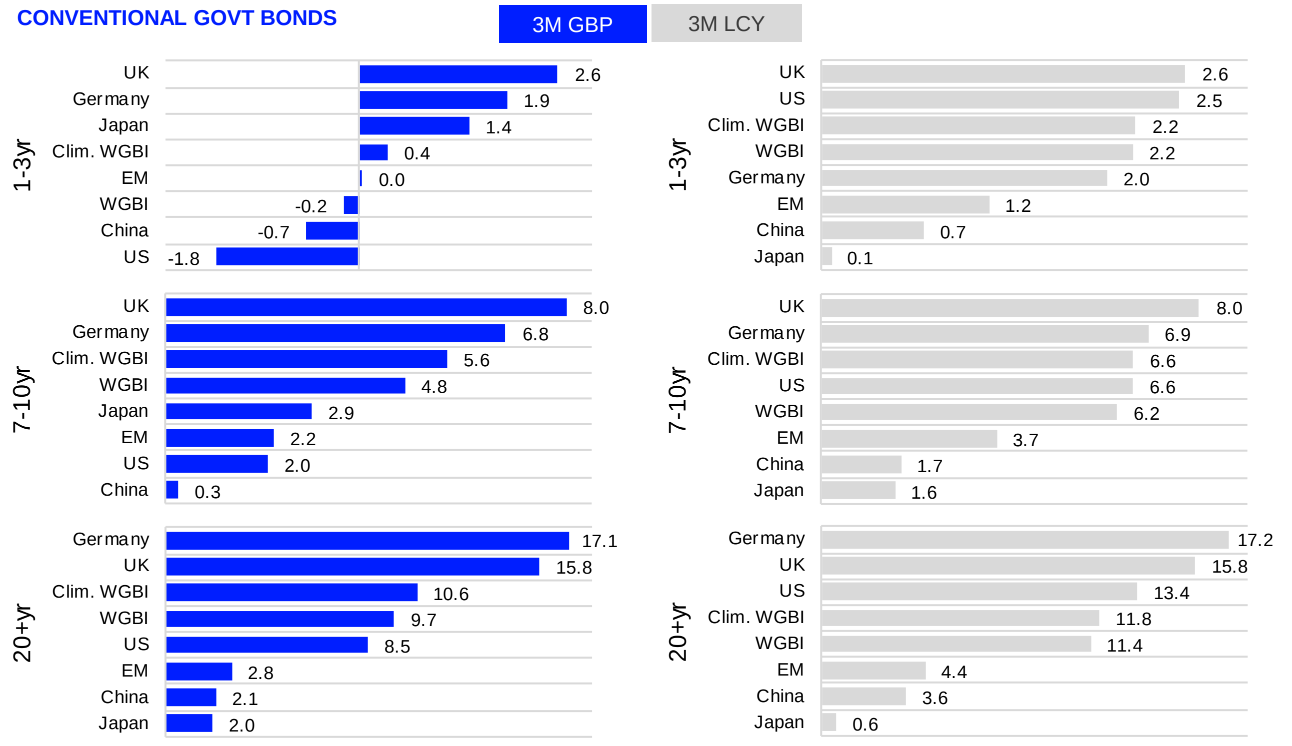
Global Bond Market Returns − 3M & YTD % (GBP, LC, TR) 29 Dec

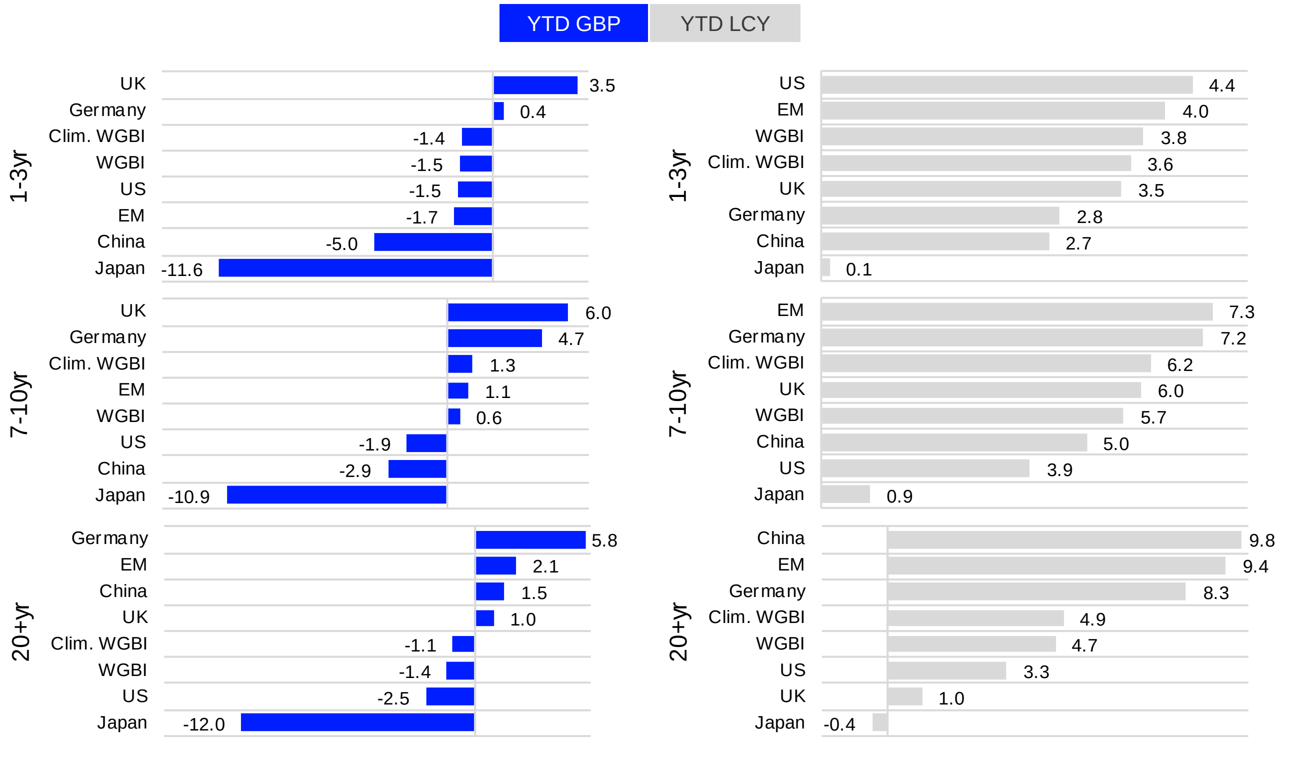
After a volatile Q4, long government bonds finished with strong positive returns, in sterling terms, despite October's sell-off. Bunds and gilts performed best in sterling, with US returns reduced by a weak dollar after the Fed pivot. YTD returns show sterling strength squeezed overseas returns for a sterling investor, and JGBs lost 11-12%, largely due to yen weakness.

Duration was very much the investor's friend in Nov/December, after the Fed pivot. Investors anticipated similar easing pivots in Europe, and long Bunds, gilts and Climate-WGBI offered sterling returns of 11-12% in Q4 overall.

China and EM lagged the Q4 rally, and remained less volatile, but still managed positive returns of 2-3% in sterling, as did JGBs, aided by the yen's recovery. Climate WGBI outperformed WGBI as extra duration helped returns in Q4.

CONVENTIONAL GOVT BONDS





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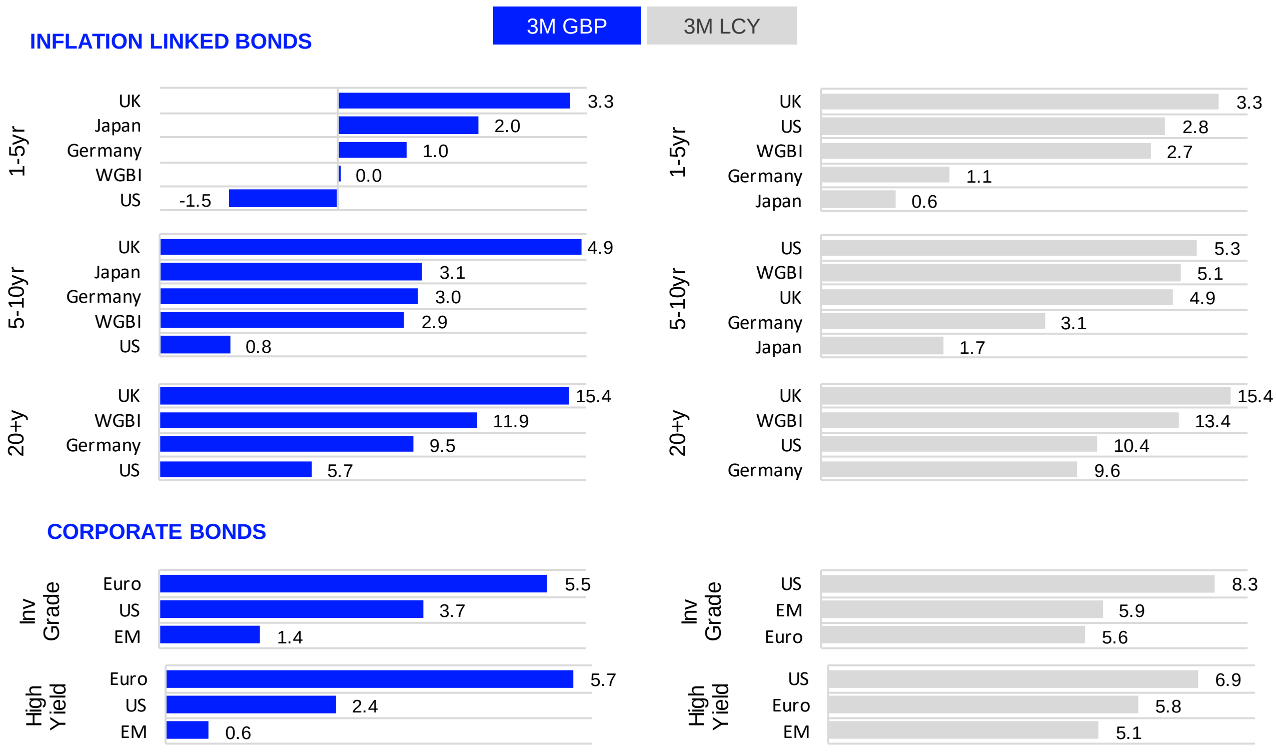
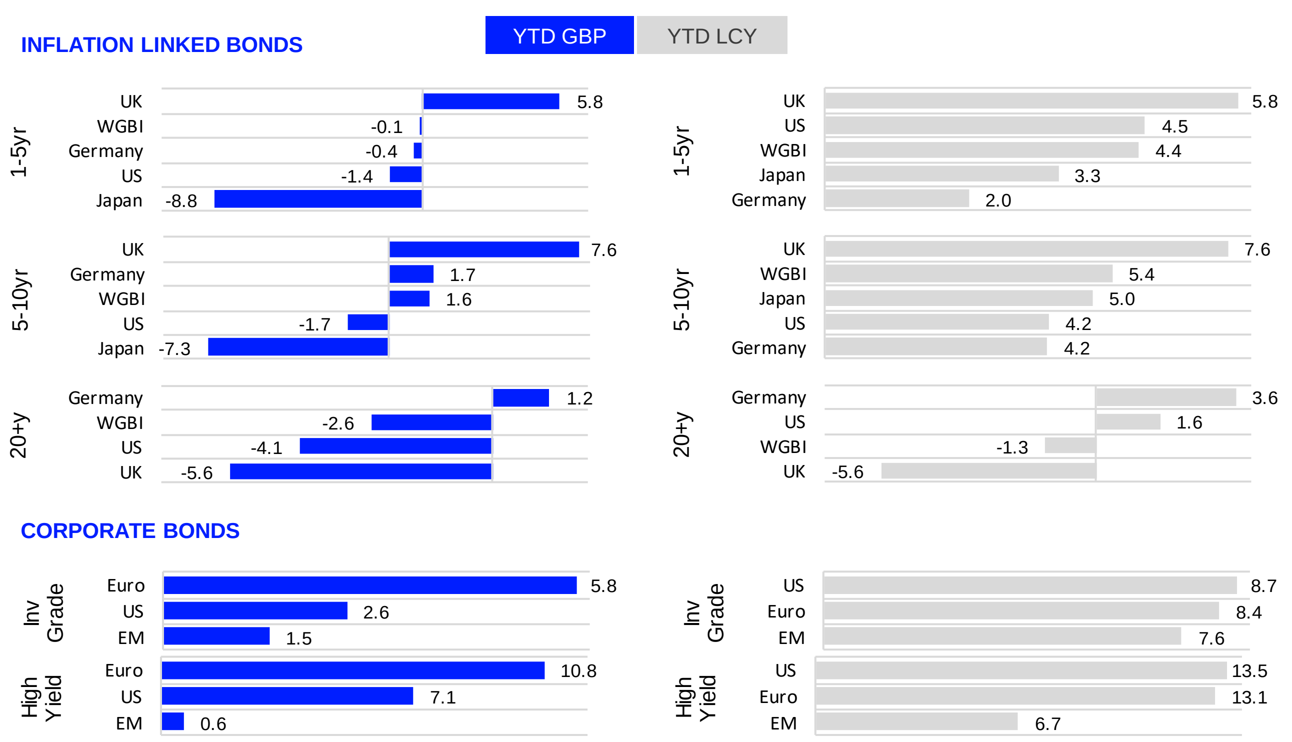
Global Inflation-Linked Bond Returns − 3M & YTD % (GBP, LC, TR) 29 Dec

Inflation linked (IL) broadly matched conventional gains in Q4, led by longs, rallying on the Fed pivot, with 6-15% sterling returns in the UK, WILSI and Tips. Sterling strength reduced overseas returns. Euro credit returned 6% in Q4, and led YTD returns, with HY gaining 11%. Apart from JGBs, the Q4 rally erased most of 2023's losses though long UK IL still lost 4-6%.

The extra duration in long UK index linked bonds vs other markets boosted Q4 returns, as yields fell right through the curve. JGB IL showed positive returns in sterling, aided by yen gains of 1.4% in Q4. The yen rebounded on improved interest rate differentials.

JGB linkers still lost up to 3% YTD, due to yen weakness. In contrast, shorter UK IL made 12-14%, boosted by sterling gains.





Source: FTSE Russell and LSEG. All data as of December 31, 2023. Past performance is no guarantee of future results. Please see the end for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indexes. See Appendix Glossary for list of indexes used for each market. For professional investors only.

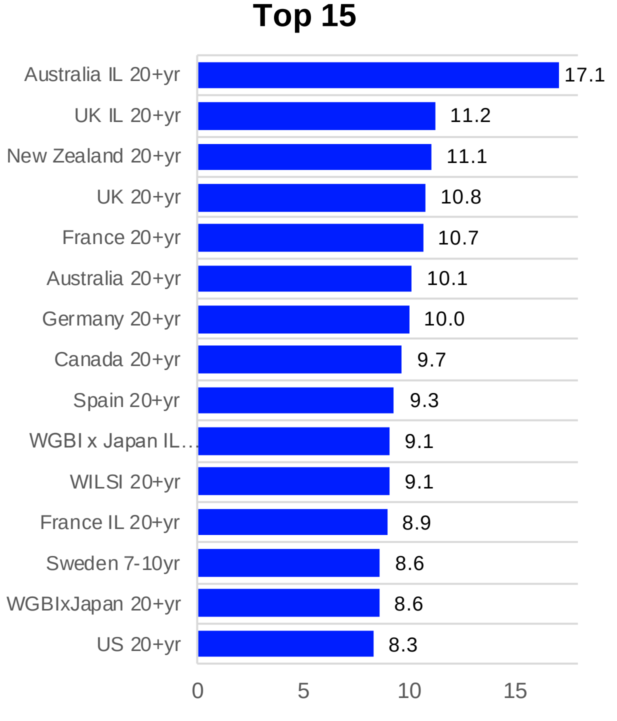
Top and Bottom Bond Returns – 1M & YTD % (GBP, TR) 29 Dec

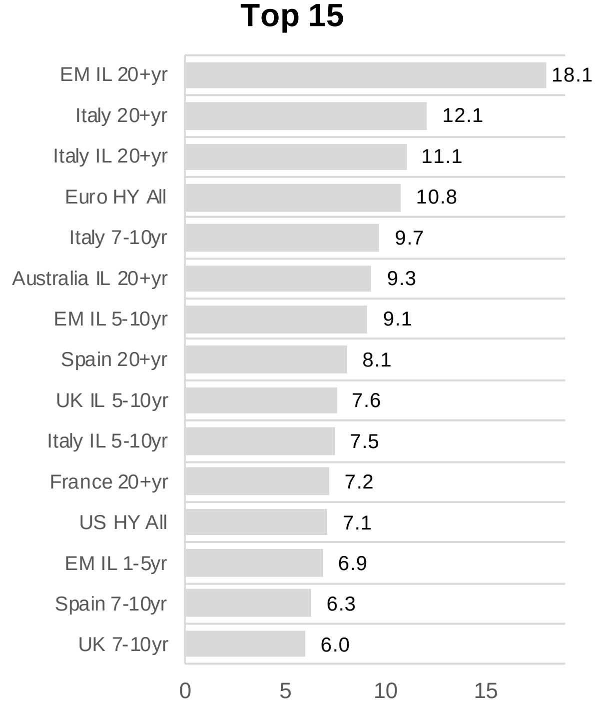
December returns show the impact of the decline in yields on long duration govt bonds. Sterling strength also squeezed overseas returns, for a sterling investor. Nearly all Top 15 performers are long bonds, led by Australasian and UK linkers. YTD returns show long EM linkers outperformed with sterling returns of 18%. Eurozone govts and HY returned 10-12%.

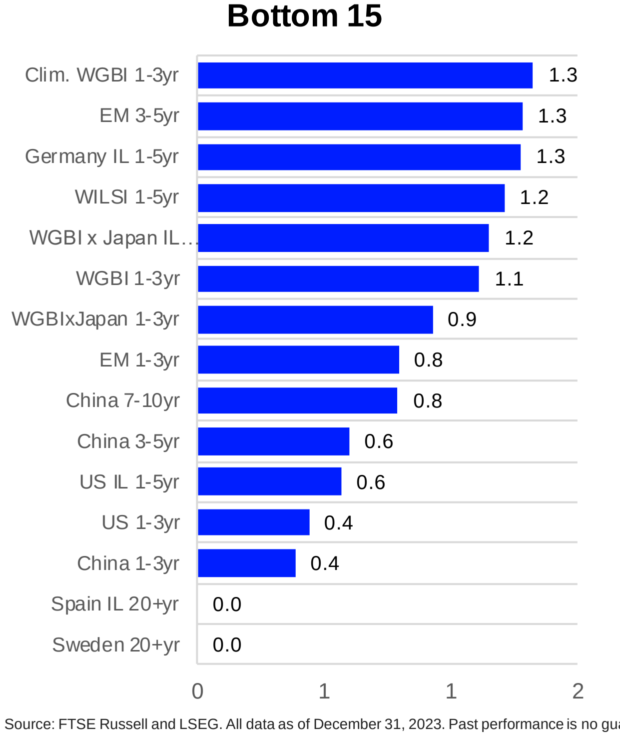
The Fed pivot drove expectations of similar moves by other central banks and returns of 9-17% in European and Australasian bonds in sterling terms, on one month, as duration boosted returns.

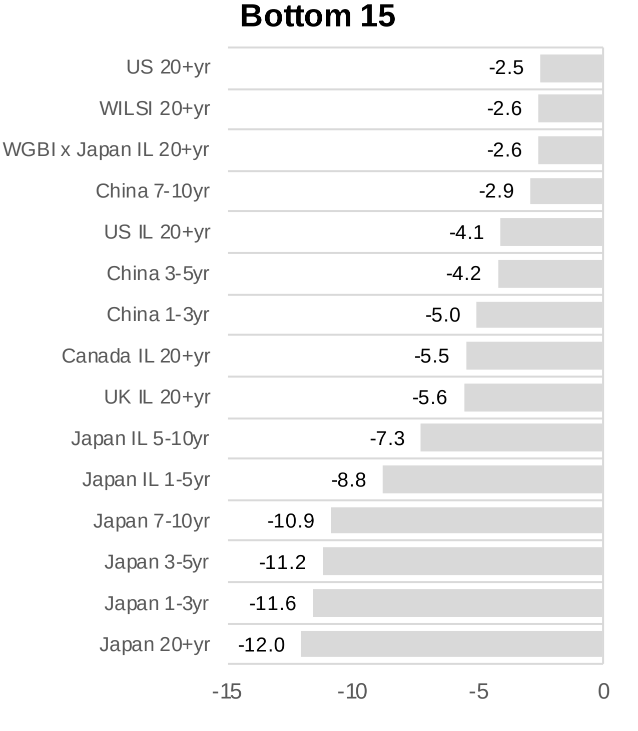
Sterling strength reduced overseas returns in 2023, with losses of 11-12% in JGBs. Despite Q4's rally, long UK linkers still lost 6%.

1M GBP | YTD GBP









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Appendix − Global Bond Market Returns % (GBP & LC, TR) – December 29, 2023

Government Bond Returns

Top 15% | Bottom 15%

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

		3M		6M		YTD		12M	
		Local	GBP	Local	GBP	Local	GBP	Local	GBP
US	1-3yr	2.52	-1.84	3.27	2.99	4.35	-1.54	4.35	-1.54
	7-10yr	6.58	2.05	1.88	1.60	3.92	-1.94	3.92	-1.94
	20+yr	13.36	8.54	-1.34	-1.61	3.32	-2.51	3.32	-2.51
	IG All	8.32	3.71	5.24	4.96	8.71	2.58	8.71	2.58
	HY All	6.94	2.39	7.51	7.22	13.50	7.10	13.50	7.10
UK	1-3yr	2.56	2.56	5.01	5.01	3.52	3.52	3.52	3.52
	7-10yr	7.99	7.99	9.40	9.40	6.00	6.00	6.00	6.00
	20+yr	15.81	15.81	7.61	7.61	0.98	0.98	0.98	0.98
Euro	IG All	5.58	5.47	5.90	6.94	8.35	5.82	8.35	5.82
	HY All	5.82	5.74	7.97	8.92	13.14	10.79	13.14	10.79
Japan	1-3yr	0.07	1.41	-0.13	2.12	0.10	-11.60	0.10	-11.60
	7-10yr	1.56	2.92	-1.07	1.15	0.92	-10.87	0.92	-10.87
	20+yr	0.63	1.99	-8.07	-6.01	-0.41	-12.05	-0.41	-12.05
China	1-3yr	0.72	-0.68	1.07	3.24	2.67	-5.04	2.67	-5.04
	7-10yr	1.68	0.26	2.06	4.25	4.98	-2.91	4.98	-2.91
	20+yr	3.57	2.12	4.79	7.04	9.79	1.55	9.79	1.55
EM	1-3yr	1.18	0.04	1.80	3.51	4.04	-1.66	4.04	-1.66
	7-10yr	3.70	2.16	2.56	3.75	7.33	1.06	7.33	1.06
	20+yr	4.37	2.78	4.01	6.00	9.38	2.14	9.38	2.14
	IG All	5.93	1.42	4.28	4.00	7.56	1.50	7.56	1.50
	HY All	5.08	0.61	5.09	4.81	6.66	0.65	6.66	0.65
Germany	1-3yr	2.01	1.90	2.58	3.58	2.80	0.40	2.80	0.40
	7-10yr	6.90	6.79	4.54	5.56	7.17	4.67	7.17	4.67
	20+yr	17.18	17.06	3.84	4.85	8.29	5.76	8.29	5.76
Italy	1-3yr	2.72	2.61	3.34	4.35	4.35	1.92	4.35	1.92
	7-10yr	9.17	9.05	5.40	6.43	12.33	9.71	12.33	9.71
	20+yr	16.02	15.90	3.86	4.87	14.78	12.10	14.78	12.10
Spain	1-3yr	2.28	2.17	2.84	3.85	3.41	1.00	3.41	1.00
	7-10yr	8.20	8.09	5.50	6.54	8.84	6.30	8.84	6.30
	20+yr	16.96	16.84	5.97	7.01	10.67	8.09	10.67	8.09
France	1-3yr	2.36	2.25	2.95	3.96	3.48	1.06	3.48	1.06
	7-10yr	7.56	7.45	5.02	6.04	7.76	5.25	7.76	5.25
	20+yr	18.28	18.16	5.71	6.74	9.76	7.20	9.76	7.20
Sweden	1-3yr	2.14	5.42	2.91	10.00	3.16	0.64	3.16	0.64
	7-10yr	8.67	12.17	6.34	13.66	5.52	2.94	5.52	2.94
Australia	1-3yr	1.84	3.08	2.92	5.21	3.02	-2.19	3.02	-2.19
	7-10yr	5.24	6.53	3.09	5.39	5.10	-0.21	5.10	-0.21
	20+yr	10.79	12.15	2.67	4.96	5.07	-0.24	5.07	-0.24
New Zealand	1-3yr	3.11	4.03	3.24	6.41	4.73	-1.07	4.73	-1.07
	7-10yr	9.19	10.17	4.71	7.92	5.87	0.01	5.87	0.01
	20+yr	18.37	19.42	5.51	8.75	3.54	-2.19	3.54	-2.19
Canada	1-3yr	2.65	0.77	3.18	3.27	3.93	0.77	3.93	0.77
	7-10yr	8.35	6.37	3.32	3.40	4.51	1.33	4.51	1.33
	20+yr	18.15	15.99	3.35	3.43	8.03	4.75	8.03	4.75

Source: FTSE Russell and LSEG. All data as of December 31, 2023. Past performance is no guarantee of future results. Please see the end for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indexes. See Appendix Glossary for list of indexes used for each market. For professional investors only.

Appendix − Global Bond Market Returns % (GBP & LC, TR) – December 29, 2023

Inflation-Linked Bond Returns

Top 15% | Bottom 15%

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

		3M		6M		YTD		12M	
		Local	JPY	Local	JPY	Local	JPY	Local	JPY
US	1-5yr	2.83	-1.55	3.11	2.83	4.51	-1.38	4.51	-1.38
	5-10yr	5.30	0.81	2.13	1.85	4.21	-1.67	4.21	-1.67
	20+yr	10.38	5.68	-3.73	-3.99	1.64	-4.09	1.64	-4.09
UK	1-5yr	3.27	3.27	5.94	5.94	5.82	5.82	5.82	5.82
	5-10yr	4.95	4.95	6.50	6.50	7.56	7.56	7.56	7.56
	20+yr	15.37	15.37	1.04	1.04	-5.56	-5.56	-5.56	-5.56
Japan	1-5yr	0.61	1.96	1.07	3.34	3.28	-8.79	3.28	-8.79
	5-10yr	1.72	3.08	1.10	3.37	5.02	-7.25	5.02	-7.25
EM	1-5yr	2.61	-0.25	5.97	3.68	12.38	6.87	12.38	6.87
	5-10yr	5.13	2.72	5.10	3.65	12.11	9.12	12.11	9.12
	20+yr	9.82	8.22	5.13	4.61	15.31	18.08	15.31	18.08
Germany	1-5yr	1.06	0.95	1.71	2.70	2.03	-0.35	2.03	-0.35
	5-10yr	3.14	3.03	1.40	2.39	4.18	1.75	4.18	1.75
	20+yr	9.63	9.51	-3.52	-2.58	3.62	1.20	3.62	1.20
Italy	1-5yr	3.30	3.19	3.72	4.73	5.18	2.73	5.18	2.73
	5-10yr	6.91	6.80	3.06	4.07	10.03	7.46	10.03	7.46
	20+yr	17.17	17.05	-2.80	-1.85	13.71	11.05	13.71	11.05
Spain	1-5yr	1.99	1.88	2.44	3.44	3.24	0.83	3.24	0.83
	5-10yr	4.67	4.56	2.85	3.86	5.70	3.23	5.70	3.23
France	1-5yr	1.94	1.84	2.01	3.01	2.55	0.16	2.55	0.16
	5-10yr	3.96	3.85	2.24	3.24	4.93	2.48	4.93	2.48
	20+yr	14.05	13.93	-0.65	0.32	6.84	4.35	6.84	4.35
Sweden	1-5yr	2.20	5.49	3.18	10.29	3.74	1.21	3.74	1.21
	5-10yr	5.42	8.81	4.70	11.91	5.01	2.45	5.01	2.45
Australia	1-5yr	2.68	3.94	3.80	6.12	6.70	1.31	6.70	1.31
	5-10yr	5.32	6.61	4.98	7.32	9.45	3.92	9.45	3.92
	20+yr	17.21	18.65	9.22	11.66	15.14	9.32	15.14	9.32
New Zealand	5-10yr	6.80	7.75	3.87	7.06	8.18	2.19	8.18	2.19
Canada	20+yr	14.76	12.66	0.58	0.66	-2.52	-5.48	-2.52	-5.48

Appendix − Historical Bond Yields % as of December 29, 2023

Global Bond Yields

Top 15% | Bottom 15%

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

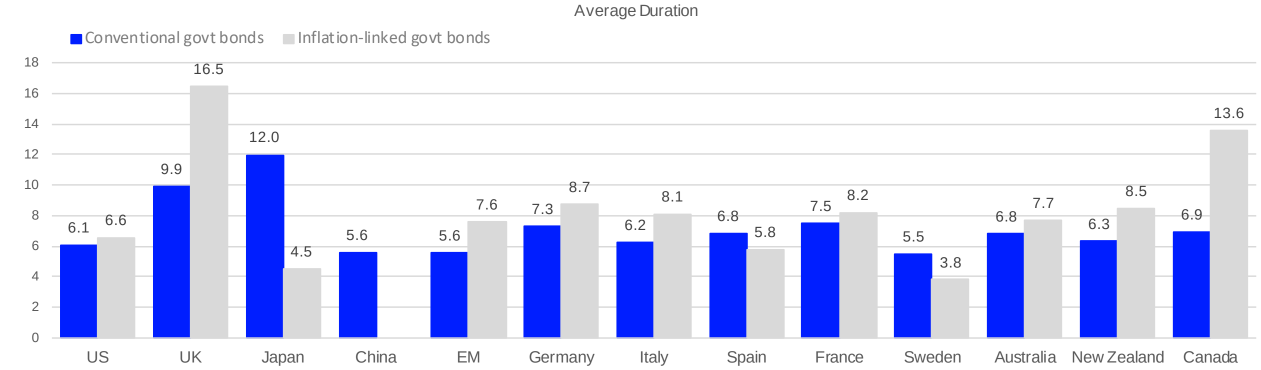
		Conventional government bonds				Inflation-linked bonds			Inv Grade	High Yld
		1-3YR	3-5YR	7-10YR	20+YR	1-5YR	5-10YR	20+YR	All Mat	All Mat
US	Current	4.37	3.92	3.87	4.14	2.20	1.72	1.96	5.11	7.79
	3M Ago	5.16	4.71	4.59	4.82	2.72	2.29	2.37	6.06	8.91
	6M Ago	5.01	4.31	3.85	3.95	2.45	1.72	1.68	5.53	8.58
	12M Ago	4.54	4.13	3.88	4.11	2.09	1.68	1.82	5.50	8.99
UK	Current	3.94	3.45	3.46	4.07	-0.02	-0.02	0.91		
	3M Ago	4.73	4.46	4.35	4.81	0.55	0.53	1.39		
	6M Ago	5.36	5.04	4.38	4.35	1.78	0.72	0.90		
	12M Ago	3.50	3.65	3.69	3.92	-0.68	0.15	0.49		
Japan	Current	0.00	0.13	0.50	1.60	-1.67	-0.81			
	3M Ago	0.01	0.21	0.66	1.61	-1.75	-0.70			
	6M Ago	-0.10	-0.01	0.29	1.21	-1.64	-0.87			
	12M Ago	0.03	0.15	0.48	1.50	-1.22	-0.54			
China	Current	2.18	2.33	2.58	2.90					
	3M Ago	2.24	2.42	2.70	3.06					
	6M Ago	2.09	2.33	2.66	3.08					
	12M Ago	2.28	2.53	2.85	3.26					
EM	Current					4.27	4.23	4.82	5.57	10.03
	3M Ago					3.27	4.48	5.32	6.43	11.01
	6M Ago					4.15	4.07	4.86	5.95	11.86
	12M Ago					2.79	3.04	5.15	5.92	11.40
Germany	Current	2.48	1.97	1.96	2.25	0.92	0.16	0.16		
	3M Ago	3.21	2.78	2.75	2.97	0.87	0.44	0.52		
	6M Ago	3.17	2.66	2.37	2.36	0.96	0.19	-0.06		
	12M Ago	2.56	2.53	2.54	2.51	0.40	0.34	0.18		
Italy	Current	2.99	2.88	3.45	4.17	1.23	1.62	1.88		
	3M Ago	3.94	4.03	4.50	5.02	1.68	2.31	2.43		
	6M Ago	3.79	3.71	3.87	4.25	1.74	1.78	1.70		
	12M Ago	3.34	3.72	4.38	4.72	1.16	2.19	2.18		
France	Current	2.49	2.23	2.43	3.00	0.56	0.32	0.64		
	3M Ago	3.33	3.14	3.26	3.79	0.82	0.75	1.12		
	6M Ago	3.21	2.94	2.85	3.19	0.88	0.47	0.55		
	12M Ago	2.85	2.82	2.97	3.30	0.15	0.44	0.77		
Sweden	Current	2.59	2.04	2.01		1.12	0.59			
	3M Ago	3.50	3.18	2.98		1.42	1.28			
	6M Ago	3.43	2.94	2.61		1.18	0.91			
	12M Ago	2.80	2.65	2.37		-0.24	0.25			
Australia	Current	3.71	3.63	3.90	4.30	0.85	1.27	1.61		
	3M Ago	4.14	4.10	4.43	4.86	1.30	1.78	2.24		
	6M Ago	4.17	3.99	4.02	4.36	1.04	1.47	1.85		
	12M Ago	3.43	3.62	4.01	4.37	0.60	1.45	1.88		
New Zealand	Current	4.71	4.24	4.31	4.60	1.45	2.12			
	3M Ago	5.63	5.35	5.32	5.54	2.50	2.89			
	6M Ago	5.08	4.67	4.61	4.77	1.53	2.15			
	12M Ago	5.00	4.62	4.46	4.54	1.54	2.06			
Canada	Current	3.94	3.26	3.10	3.04	1.31	1.35	1.51		
	3M Ago	4.88	4.37	4.07	3.85	2.35	2.29	2.13		
	6M Ago	4.60	3.84	3.35	3.12	1.90	1.57	1.43		
	12M Ago	4.04	3.50	3.28	3.26	1.53	1.39	1.18		

Appendix – Duration and Market Value (USD, Bn) as of December 29, 2023

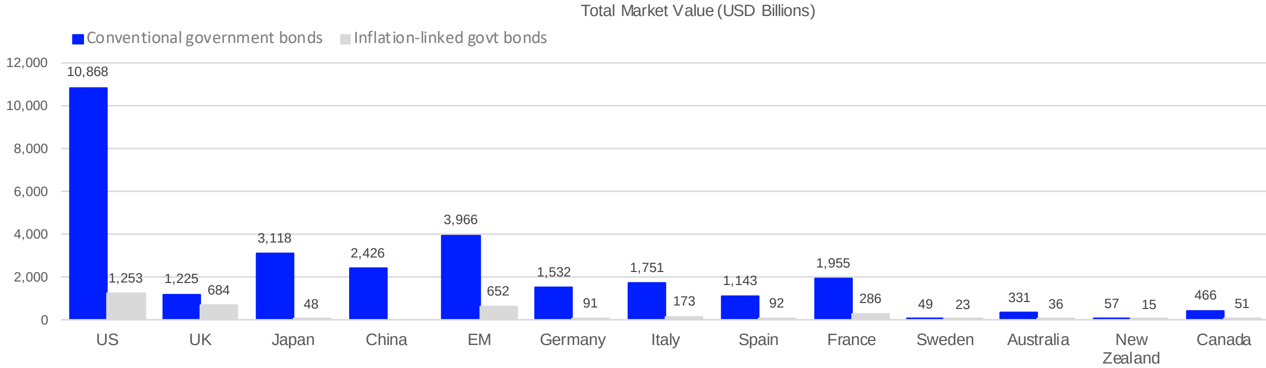
	Conventional government bonds								Inflation-linked government bonds					
	Duration				Market Value				Duration			Market Value		
	3-5YR	7-10YR	20+YR	Overall	3-5YR	7-10YR	20+YR	Total	5-10YR	20+YR	Overall	5-10YR	20+YR	Total
US	3.7	7.4	17.2	**6.1**	2,522.9	1,098.8	1,336.4	**10,868.3**	7.0	21.2	**6.6**	423.2	126.7	**1,253.5**
UK	3.6	7.4	18.8	**9.9**	140.0	190.5	346.2	**1,225.4**	6.9	27.4	**16.5**	113.2	268.0	**684.3**
Japan	3.8	8.0	23.7	**12.0**	378.7	370.5	673.5	**3,117.7**	7.2		**4.5**	21.0		**48.1**
China	3.7	7.6	17.7	**5.6**	595.9	358.8	277.5	**2,426.4**						
EM	3.5	7.0	15.9	**5.6**	894.4	689.4	380.2	**3,966.2**	5.8	13.9	**7.6**	118.7	177.5	**651.7**
Germany	3.8	7.6	20.8	**7.3**	358.5	239.5	185.0	**1,532.5**	7.0	21.5	**8.7**	45.3	19.6	**90.9**
Italy	3.6	7.2	16.4	**6.2**	309.2	305.1	153.0	**1,750.6**	7.5	26.1	**8.1**	63.9	5.6	**173.0**
Spain	3.8	7.7	18.1	**6.8**	211.8	204.7	108.2	**1,143.4**	6.5		**5.8**	24.0		**91.8**
France	3.9	7.6	20.2	**7.5**	330.4	307.2	245.4	**1,954.8**	6.4	24.3	**8.2**	110.9	22.4	**286.4**
Sweden	4.2	7.8		**5.5**	7.1	14.3		**49.2**	5.6		**3.8**	10.7		**22.8**
Australia	3.7	7.5	17.2	**6.8**	48.8	106.8	21.7	**331.3**	6.9	22.3	**7.7**	10.6	2.9	**36.0**
New Zealand	3.6	7.4	17.2	**6.3**	11.1	16.0	2.9	**57.4**	6.0		**8.5**	3.3		**14.7**
Canada	3.7	7.4	20.1	**6.9**	61.5	117.5	69.7	**466.1**	6.7	20.7	**13.6**	8.5	21.1	**51.2**

	Investment grade bonds										High Yield	
	Duration					Market Value					Duration	MktVal
	AAA	AA	A	BBB	Overall	AAA	AA	A	BBB	Overall		
US	10.7	8.6	7.3	6.7	7.1	77.6	459.8	2747.0	3470.9	6755.4	3.9	1034.5
Europe	5.7	4.8	4.6	4.2	4.4	11.2	205.4	1277.8	1553.0	3047.4		
EM		6.1	4.9	5.2	5.1		37.0	218.1	311.3	566.3	3.3	161.1

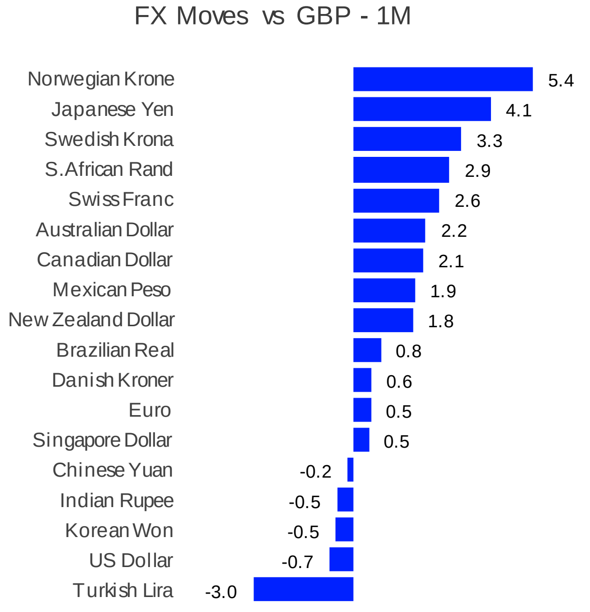
Average Duration

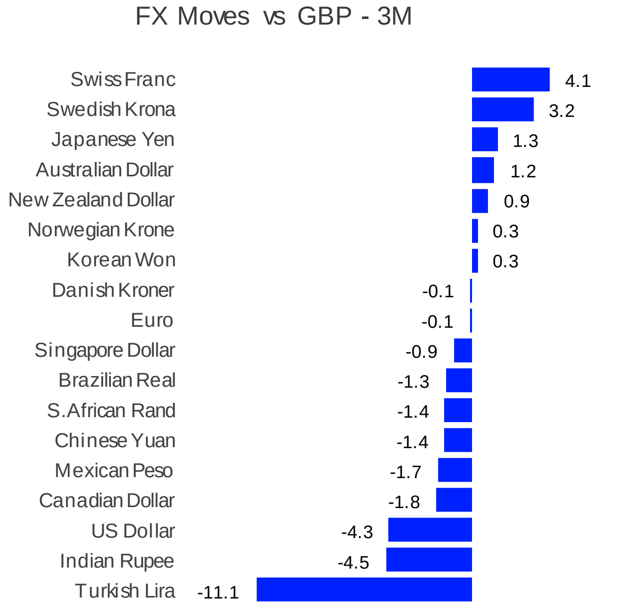


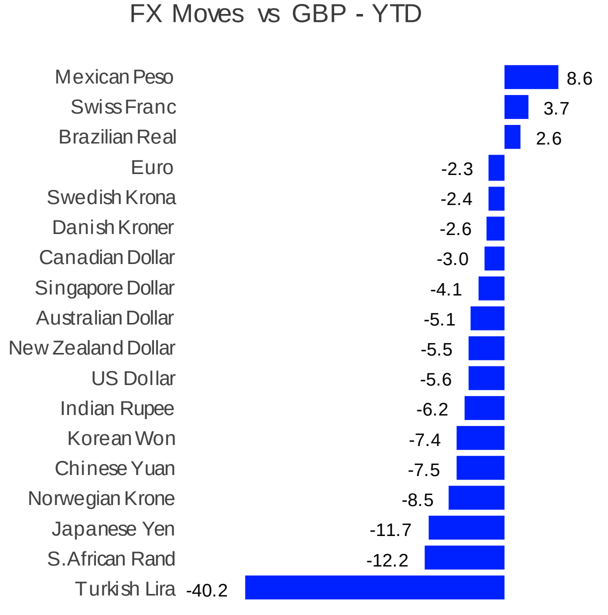
Total Market Value (USD Billions)

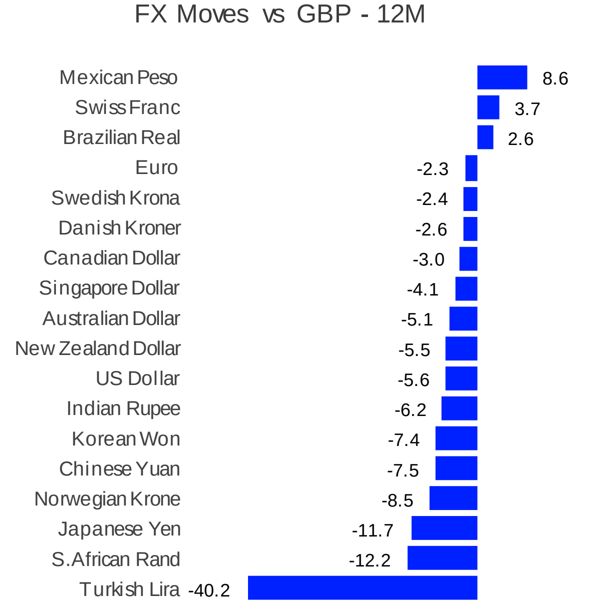


Appendix – Foreign Exchange Returns % as of December 29, 2023









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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Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

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