

# Fixed Income Insights

MONTHLY REPORT | NOVEMBER 2024

UK EDITION

## Gilt focus shifts to post-budget issuance

More fiscal stimulus in the UK signals a shift away from reliance on monetary policy to boost growth, driving term premia higher, on increased issuance and higher rate profile fears. Credit spreads narrowed but mainly due to higher govt yields, though credit quality improved. Chinese bonds outperformed after policy easing. The US dollar rally resumed.

### Macro and policy backdrop – Markets re-assess monetary/fiscal balance

Fiscal policy assumes a bigger role as China, and the UK, follow the US lead. The BoE & Fed may ease on Nov.7, but fiscal activism suggests higher for longer rates (pages 2-3)

### Yields, curves and spreads – G7 curves bear steeper as term premia rise

ECB & BoC easing didn't prevent longer yields rising. US, UK spreads widened (pages 4-5)

### IG credit & MBS – Credit spreads tighten, and sector betas may be changing

Banks & electrical utilities outperform. ABS performed well, despite high issuance (page 6)

### High yield credit analysis – Financials lead but most sectors perform well

Convergence in solid sector performance, apart from other Utilities, in UK HY (page 7)

**SI sov bond analysis – Quality matters** ESG WGBI has higher credit quality vs WGBI, implying more developed, lower risk sovereigns are likely to have higher ESG scores than their less developed counterparts. (page 8)

### Performance – Q3 rally stalls after stronger US growth- China best performer

Govt bonds gave up some Q3 gains, as term premia rose, but overseas bond returns were enhanced by sterling weakness. China outperformed after policy easing. (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: Yields increased most sharply in the US and UK in October, as stronger economic data weighed on US Treasuries, and fears about higher gilt issuance pushed UK yields higher.

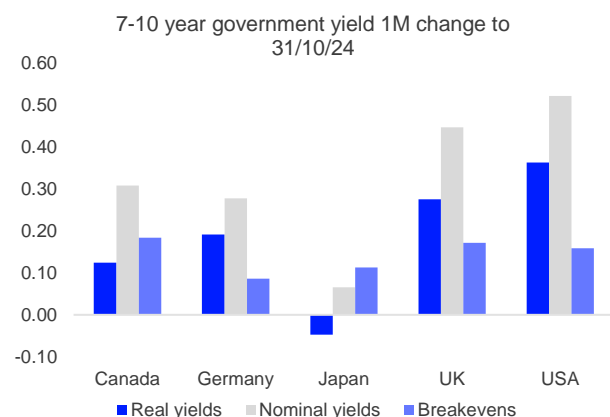
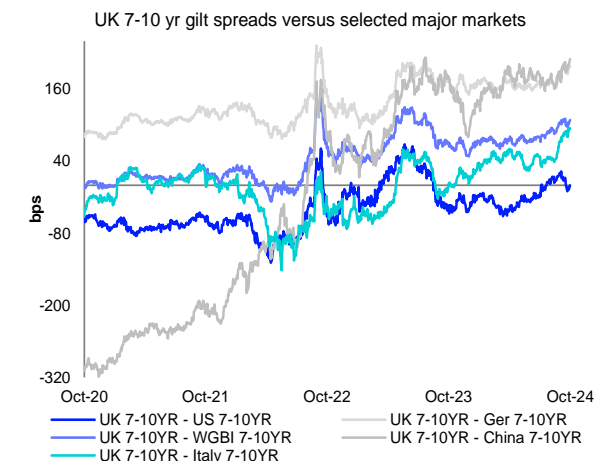


Chart 2: UK gilt yield spreads have increased by about 100-500 bp since Covid, after higher relative inflation, and a bigger monetary tightening from the BoE. Spreads widened further post-UK budget.



Source: FTSE Russell and LSEG. All data as of October 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.

# Macroeconomic Backdrop – Growth and Inflation Expectations

October IMF forecasts show little substantive change for the US and Eurozone for 2024, but a notable upgrade to UK growth to 1.1%, after the stronger H1. The UK's OBR upgrades growth forecasts for 2025, but also inflation forecasts, after the substantial UK fiscal stimulus. The main threat to UK growth may come from a higher interest rate profile, debt service costs, and weaker employment growth, after the increase in employers' NIC contributions.

US GDP growth of 2.8% in Q3, is in line with the IMF's forecast for 2024 (Chart 1). The IMF's UK GDP forecast was upgraded to 1.1% however, after stronger H1 growth, and the budget (also see Chart 4 below). The US has remained insulated against the global slowdown by its smaller net trade sector, and buoyant consumer demand, unlike China and the Eurozone.

Inflation rates dipped in September, driven by weaker energy prices (Chart 2), with headline US CPI falling to 2.4% y/y, and UK inflation at 1.7% y/y, but October will show the impact of higher electricity prices. The OBR raised its inflation forecasts because of the boost to demand from UK fiscal policy. Eurozone inflation rates show notable dispersion, but deflation risks remain.

UK employment growth may be squeezed hard by the Budget proposed increase in employers' NIC contributions in 2025-26, projected to raise £25 bn, though higher unemployment would reduce that (Chart 3). ONS has expressed doubts about whether the LFS data overstates employment growth, and the labour market may be key to whether overall UK growth accelerates.

The UK's OBR forecasts growth of 2% in 2025, before falling from 2026-29, as public spending growth slows (see Chart 4). The forecasts project a positive output gap in 2025-26, after the surge in public investment boosts demand, but then falls back. The yield curve is assumed to normalise, and steepen, reflecting higher gilt issuance. Debt service costs remain an obvious risk.

Chart 1: The IMF's forecast show little net change to the US and Eurozone growth in 2024, but a notable upgrade to the UK, after stronger H1 growth and the boost to demand from the UK budget.

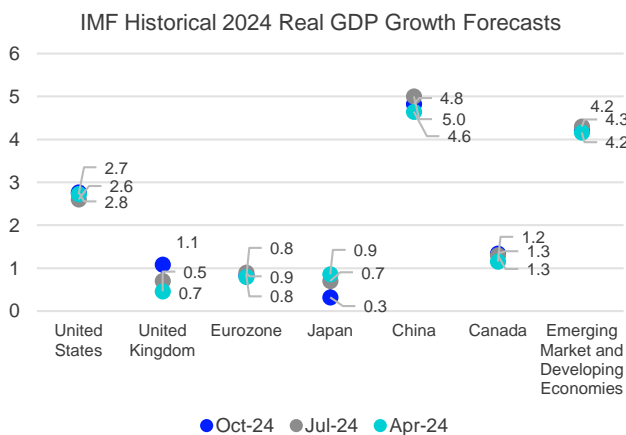


Chart 2: Weaker energy prices helped drive G7 inflation rates back below 2% targets in Europe, though UK inflation will be boosted by higher electricity prices in October, and the fiscal boost from the budget in 2025.

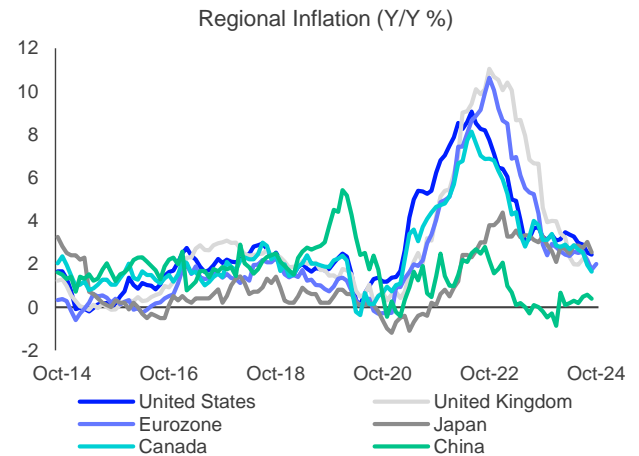


Chart 3: UK average weekly earnings growth slowed further to 4.9% in August, the lowest since June 2022. Unemployment fell a little, to 4%, though employment growth may be overstated by LFS surveys.

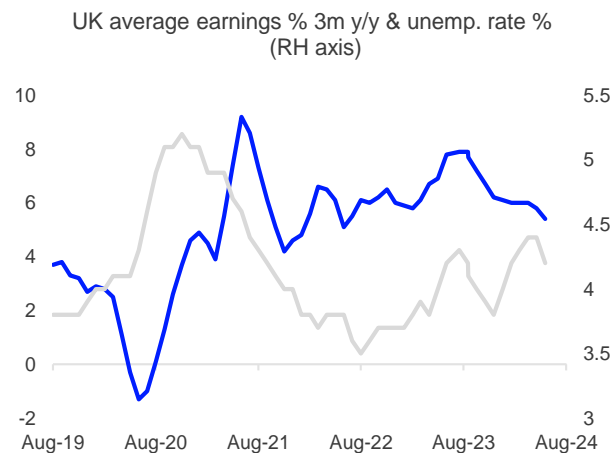


Chart 4: OBR forecasts show UK growth benefitting from the fiscal stimulus in 2025-26, before falling away in 2027-29. Inflation is forecast to remain above the 2% target, but slowly falls with the output gap.

| UK OBR October 2024 forecasts | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|-------------------------------|------|------|------|------|------|------|
| GDP growth                    | 1.1  | 2.0  | 1.8  | 1.5  | 1.5  | 1.6  |
| UK inflation (Q4)             | 2.4  | 2.5  | 2.1  | 2.1  | 2.1  | 2.0  |
| Output gap (Q4)               | -0.3 | +0.3 | +0.3 | +0.2 | +0.1 | 0.0  |
| 5 yr gilt yield (Q4)          | 3.7  | 3.8  | 3.9  | 4.1  | 4.3  | 4.4  |
| UK bank rate (Q4)             | 4.8  | 3.8  | 3.6  | 3.6  | 3.5  | 3.6  |

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# Financial Conditions and Monetary Policy Settings

**UK spread widening has been most notable versus the Eurozone and China, as markets anticipated more stimulative UK fiscal policy and higher issuance, raising the profile for UK rates, ceteris paribus. But other markets will be subject to higher issuance, as fiscal activism increases, reducing pressure on central banks to cut rates as far. Meanwhile, both the Fed and BoE are expected to use the opportunity created by lower Q3 inflation to ease a further 25bp in November.**

Despite widening in UK spreads, during recent months (see Chart 2, page 1), and higher UK inflation forecasts by the OBR, UK inflation breakevens remain stable, as Chart 1 shows. Short-run inflation expectations remain strongly correlated to spot inflation rates, as the Chart shows, peaking with inflation in 2022. But the fact short run expectations are now lower than medium dated, helps the case for a rate cut on Nov 7th. (Please note UK breakevens are based on the higher UK RPI accruals, and not the CPI).

Dollar weakness reversed in October, after stronger US data, and a sharp revision to Fed easing expectations, as Chart 2 shows. Relative rate differentials supported the US dollar, particularly versus the Euro, after the ECB and BoC eased again in October. The sharp sell-off in the yen in October will not be entirely unwelcome to the BoJ in its quest for sustained higher inflation.

The ECB and BoC still lead the easing cycle, and eased rates again in October. Markets fully discount a 25bp move from the Fed on November 7, after the pivot to maximise employment growth in July, and a UK base rate cut on the same day after lower UK inflation in Q3. But the fiscal stimulus in the budget creates some doubt, and the profile for base rates may now be higher.

The contraction in central bank balance sheets continues even if there is some tension with recent reductions in interest rates. The BoE wishes to transfer interest rate risk back to the private sector, and confirmed it would reduce gilt holdings by a further £100bn by Sept. 2025 (to £558bn). Governor Bailey has suggested an ideal size for the BoE balance sheet would be £345 bn - £490bn.

Chart 1: Inflation expectations, measured by gilt market breakevens, remain stable, with short run expectations below medium dated. This stability helps the case for a BoE rate cut on November 7<sup>th</sup>.

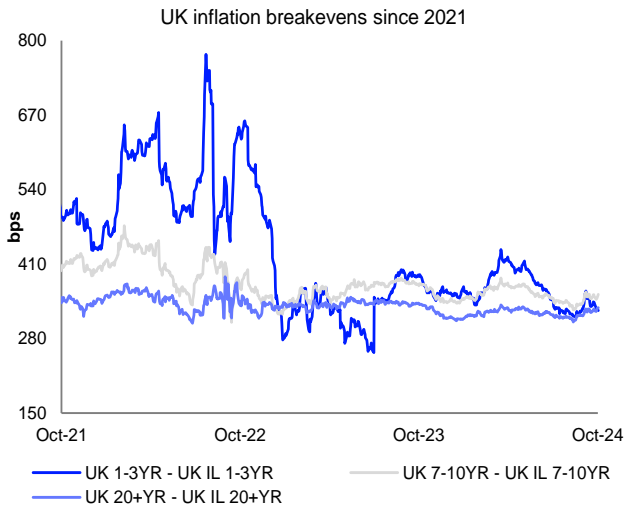


Chart 3: De-synchronised easing continues. The BoC and ECB eased again in October, as inflation fell further below target. But stronger data reduced pressure on the Fed to ease on November 7.

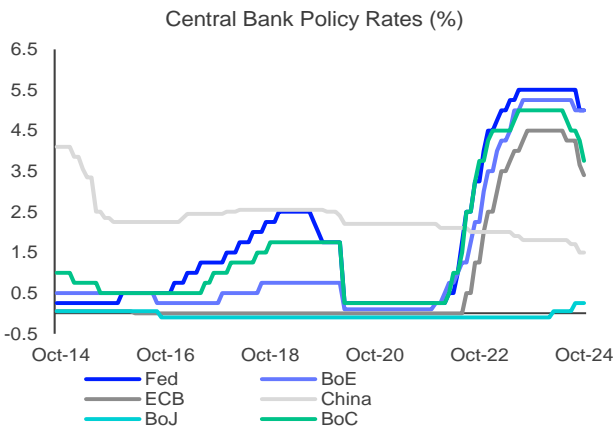


Chart 2: Improved rate differentials drove a dollar rally in October, after stronger economic data, and easing by other central banks. The yen fell sharply as interest revived in carry trades.

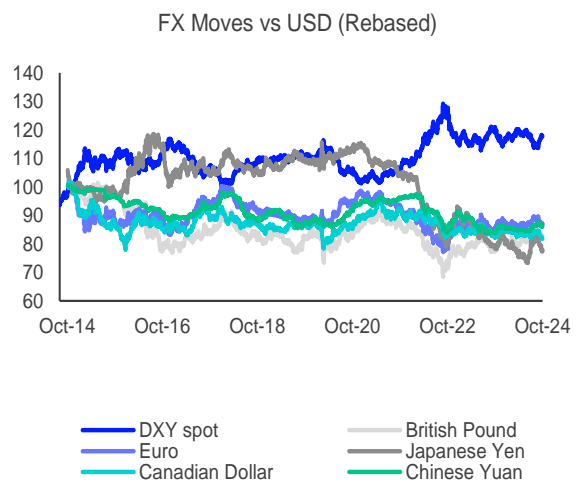
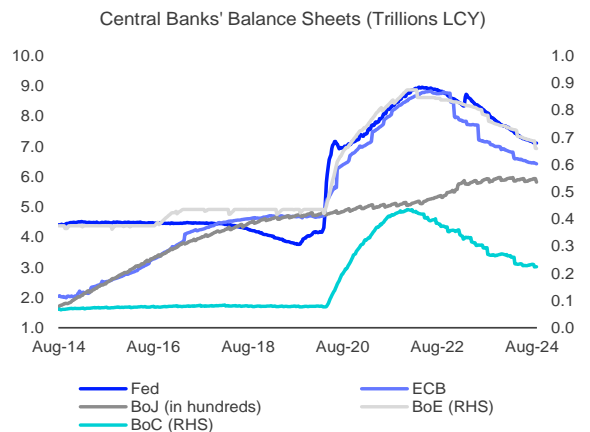


Chart 4: Central banks continue Quantitative Tightening programmes, stressing interest rates remain their main monetary policy tools. The equilibrium size of central bank balance sheets remains unclear.



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# Global Yields, Curves and Breakevens

Chart 1: G7 yields rebounded in October, led by Treasuries and UK gilts, as US growth strengthened and gilt funding fears emerged ahead of the UK budget. Bund yields moved less after ECB easing.

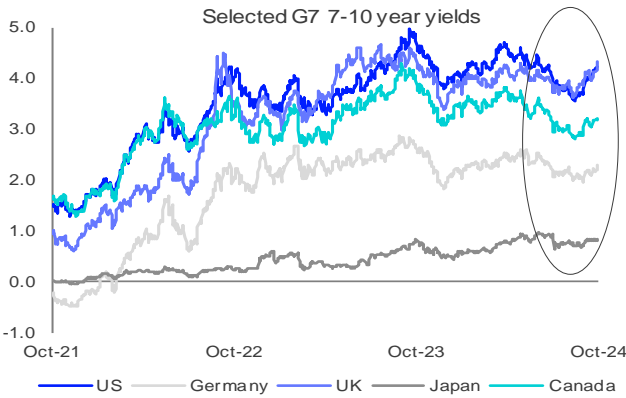


Chart 2: Real yields followed nominal yields higher, led by US Tips, though moved less. Eurozone real yields were helped by ECB easing. In the UK, gilt funding fears were focussed on conventionals.

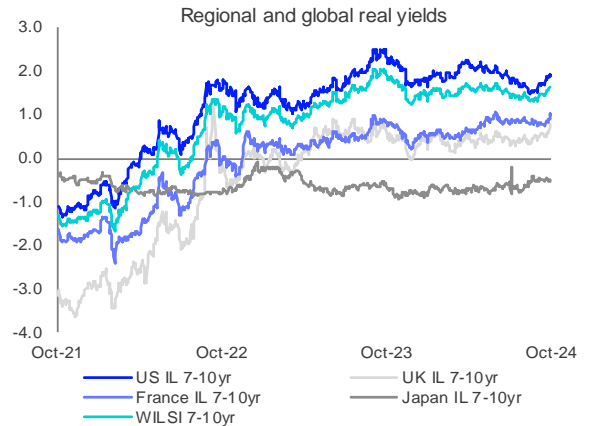


Chart 3: Yield curves disinverted in 2024, as central bank easing drove down short yields, versus longer maturities. The Canadian curve has disinverted most, as the BoC continues to ease more than the Fed.

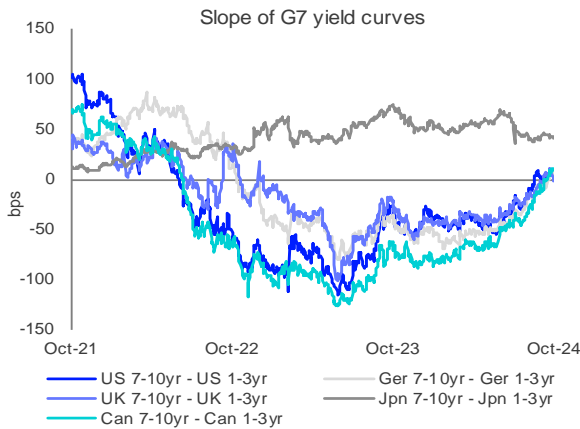


Chart 4: Yield curves have steepened a bit more in longs, than mediums, reflecting increased issuance fears, although moves are similar. The JGB curve has steepened most, as curve control ended.

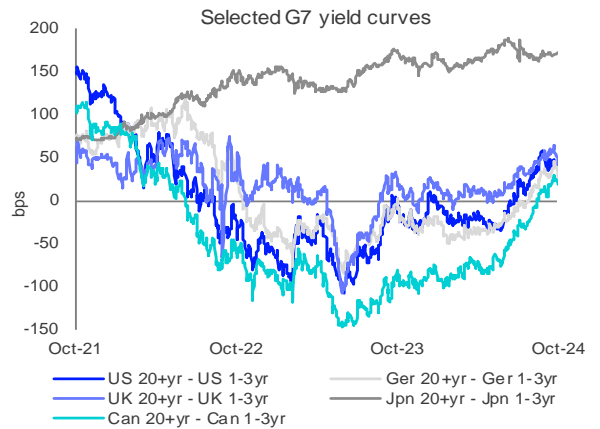


Chart 5: Inflation breakevens moved higher in October, as nominal yields proved more sensitive to the US growth rebound and sticky US inflation. ECB easing restricted the move in Eurozone breakevens.

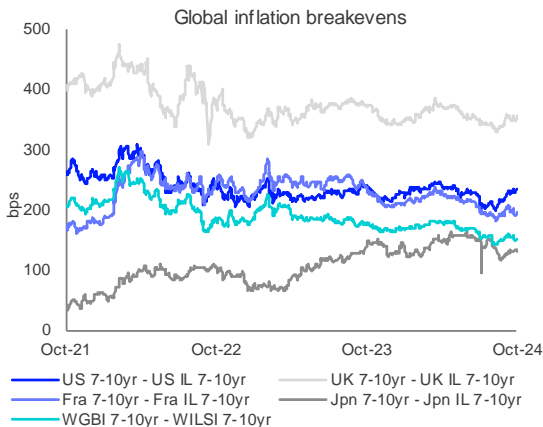


Chart 6: Globally, breakevens remain near cycle-lows, helped by lower oil prices, even if they rebounded in October. Short breakevens also remain below medium and long, as they did in the lowinflation regime, pre-Covid.



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# Yield Spreads and Credit Spread Analysis

Chart 1: Stronger US growth in Q3 drove spreads wider as markets re-framed Fed easing, pricing in more gradual rate cuts. US spreads versus gilts fell however, as gilt yields rose on higher issuance fears.

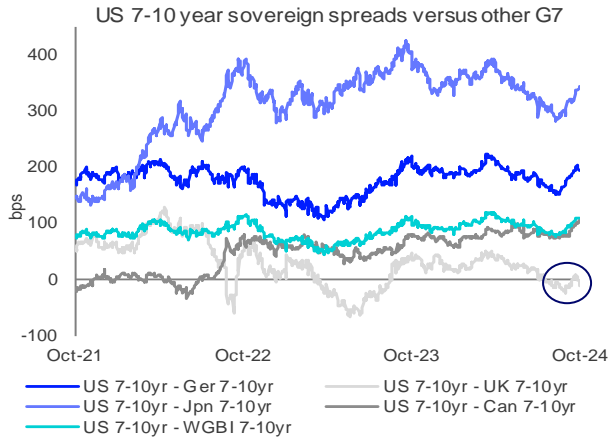


Chart 2: Italian sovereign spreads converged overall, helped by ECB policy easing, and post-Covid EU fiscal support. The biggest moves were versus gilts and Treasuries as yields rose in the UK and US.

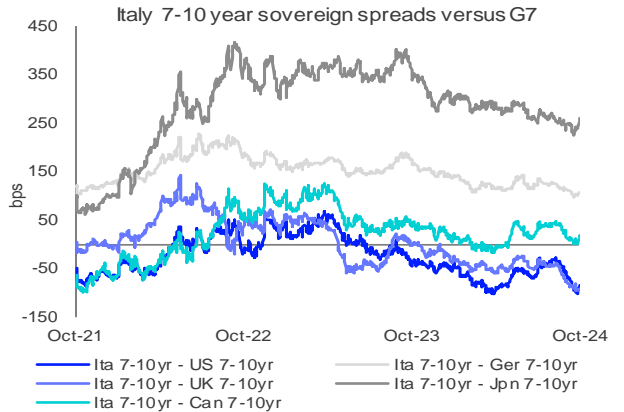


Chart 3: EM sovereign spreads resumed their tightening trend, as G7 yields backed up in October, and China yields edged lower. Spreads moved close to new lows versus US Treasuries and UK gilts.

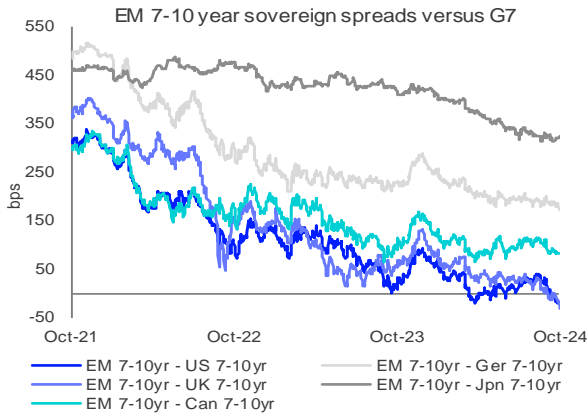


Chart 4: Further PBOC easing and a rebound in G7 yields in October drove China spreads sharply lower, and close to 2023-24 lows Spreads even fell versus Canada, despite more BoC policy easing.

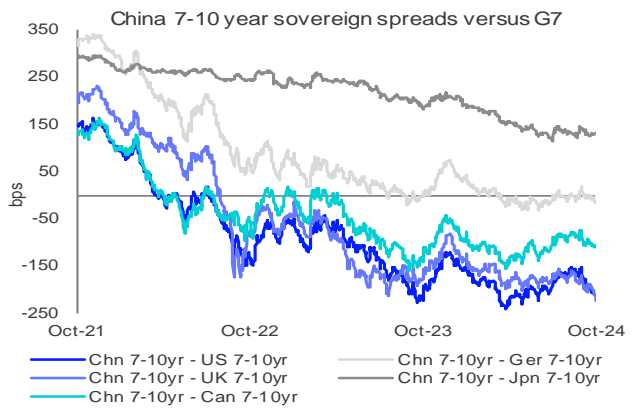


Chart 5: Credit spreads fell further in October, but mainly due to the back-up in govt bond yields, led by US Treasuries. HY spreads fell to below pre-Covid levels in the US, helped by improved credit quality.

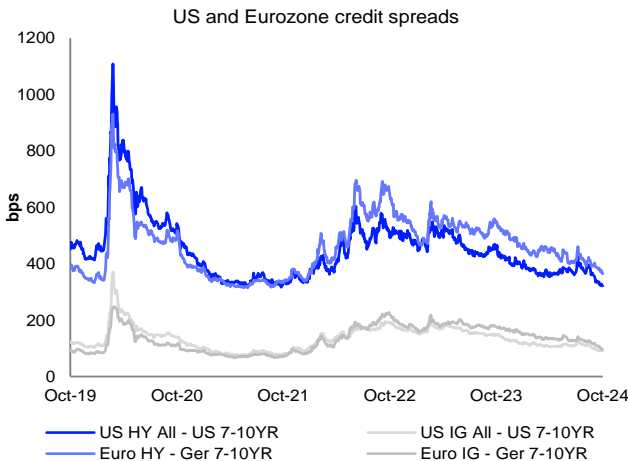
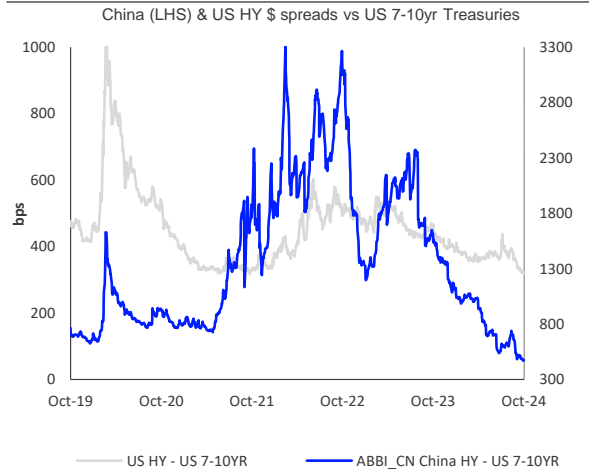


Chart 6: After the crash, China high yield spreads have collapsed aided by a series of support measures for the property sector, and bond exchanges. US HY spreads have also fallen sharply.



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# Investment Grade Credit and RMBS analysis

Chart 1: Credit sector betas have changed since Covid, led by banks, which became more stable, after regulatory change. Utilities now have higher betas, with electricity providers benefitting from the AI boom.

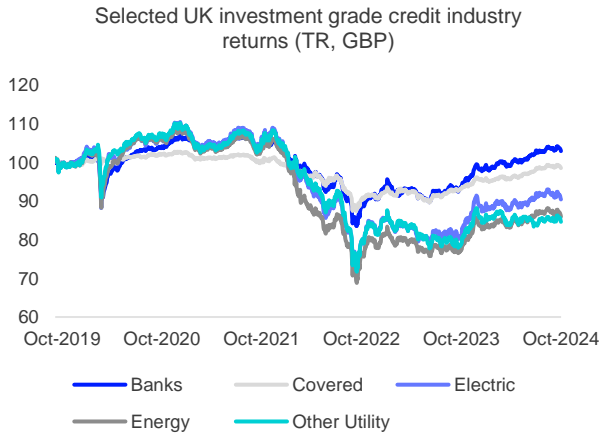


Chart 2: Despite a higher IG market weight of BBB credits in the early days of Covid, the share has fallen since 2020, and single-A credits have increased market weight sharply, as credit metrics improve.

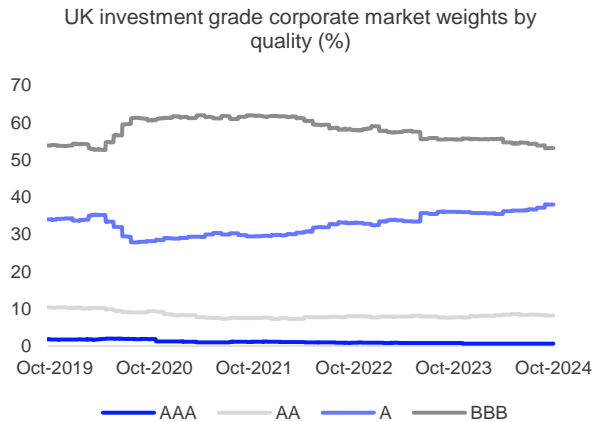


Chart 3: AAA credits have longer duration, and more exposure to higher gilt yields, and underperformed since rates increased. BBBs and single-As have led IG credit returns on improved financials.

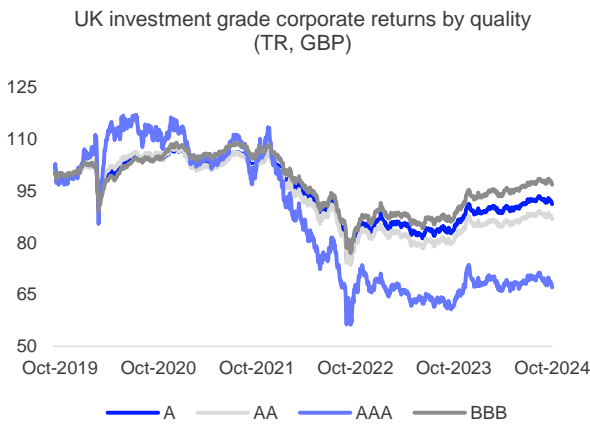


Chart 4: Although short dated IG credit missed out on the rally in 2020-21, the maturity bucket has outperformed strongly since rates increased and gilt yields increased from Q4 2021 onwards, notably vs 10+ yrs.

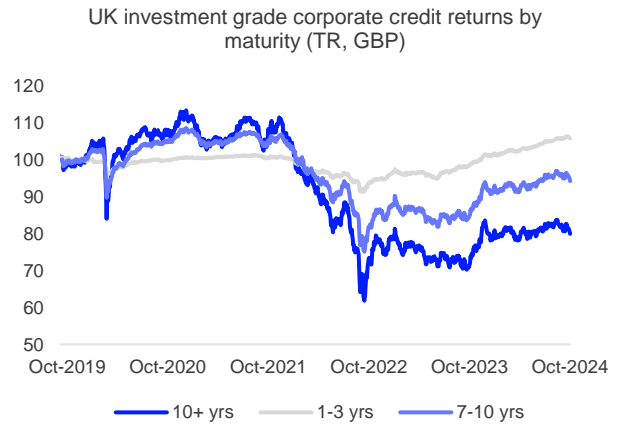


Chart 5: IG credit spreads have almost converged to the level of agency-RMBS spreads, helped by improved credit metrics, and less stock buy-backs. RMBS spreads now look attractive historically.

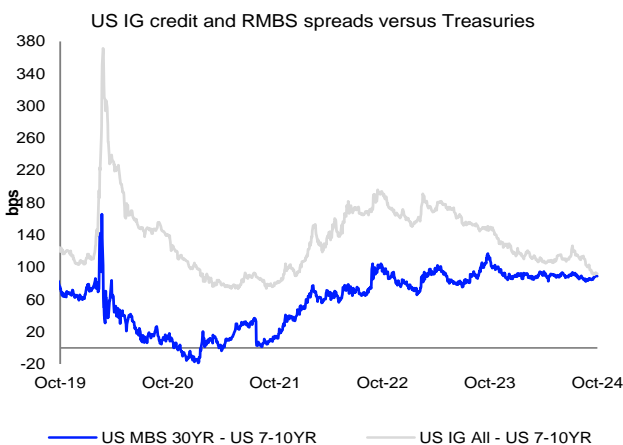
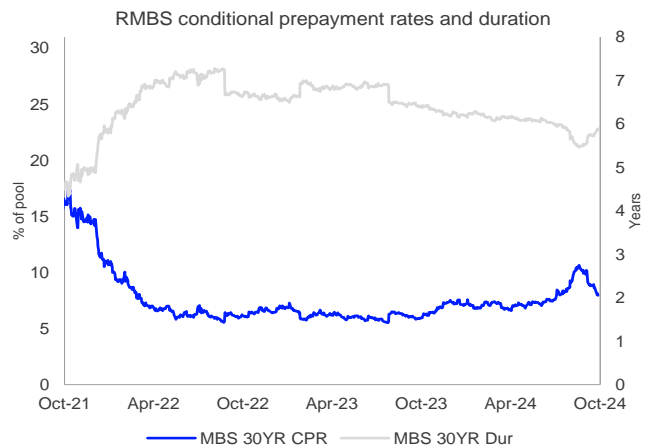


Chart 6: Increased mortgage refinancings and prepayments in Q3 started to reverse, after the rebound in 10 year yields in October, with mortgage holders locked into lower coupon fixed rate mortgages.



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# High Yield Credit Analysis

Chart 1: Apart from the collapse in the other Utility sector – due to the distressed Thames Water bonds- other HY sectors have shown reasonably close grouping of returns, with financials outperforming.

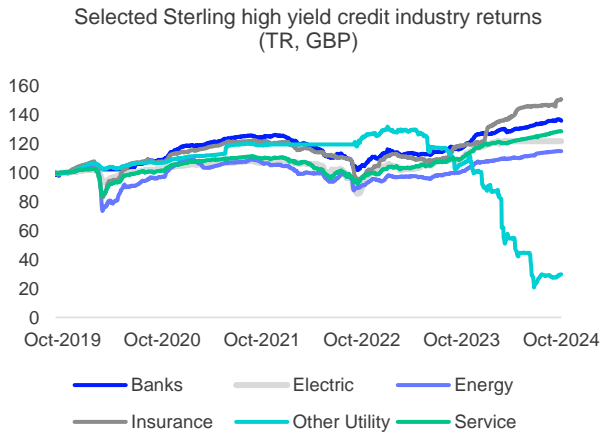


Chart 2: HY returns have been quite closely matched in 2023-24, which may suggest improved credit quality metrics overall, and low default rates in this cycle. Eurozone HY has lagged in returns somewhat.

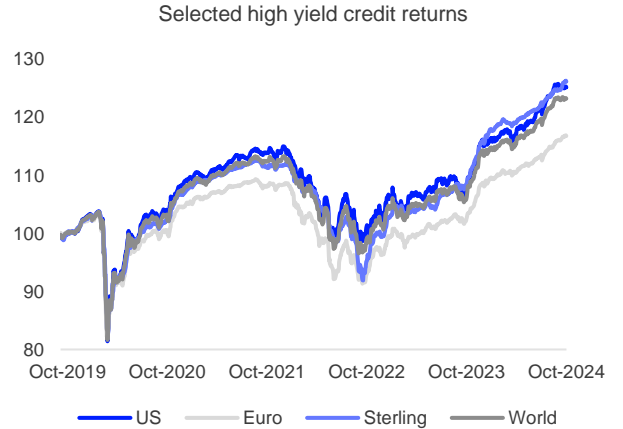


Chart 3: CCC outperformance has been a strong feature of the risk rally in 2023-24, and is a global phenomenon, as Chart 4 also shows. It is even more marked in the UK. Single B also outperformed BB.



Chart 4: There has been slightly closer grouping of HY returns by credit quality in the US market, which dwarfs other HY markets, but CCC issues have outperformed strongly in 2024.

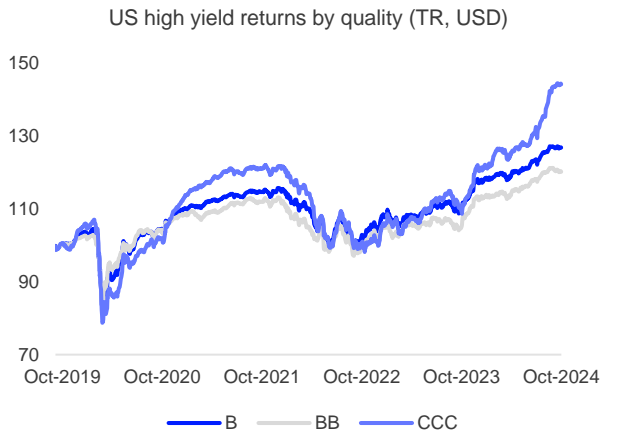


Chart 5: Short dated HY spreads remain more volatile as they have low duration, so yield sensitivity is higher to price moves – and they are also sensitive to a sudden spike in default expectations (Covid).

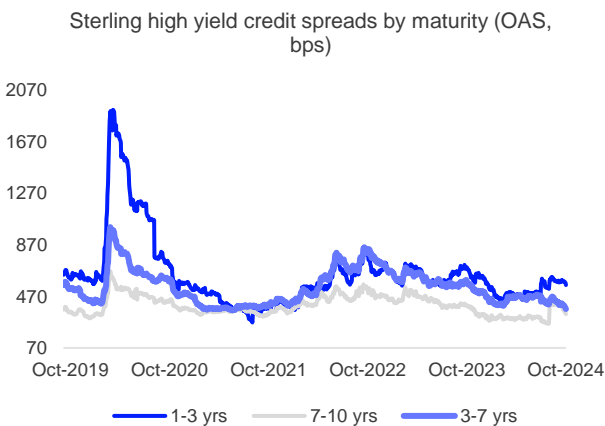
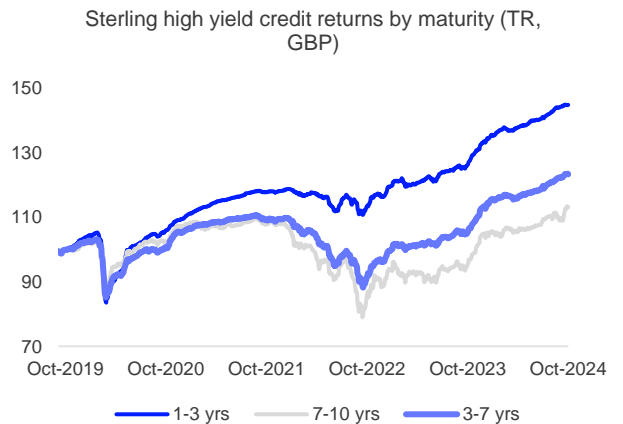


Chart 6: Shorter dated sterling HY issues continue to deliver the best returns since Covid, helped by less exposure to higher rates, and still enjoying strong correlation to equities in the risk rally.



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# SI Sovereign Bond Analysis

Chart 1: Absolute returns for the SI Sovereign indices have been strong over 1 year and roughly in-line with WGBI returns, helped by central bank easing and lower interest rate expectations.

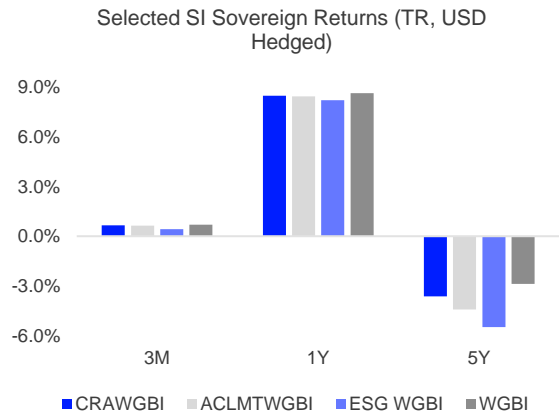


Chart 2: Relative SI Sovereign performance has been mixed over both 1Y and 3M, as the benefit of higher duration in a falling rate environment was offset by SI yields falling less than WGBI yields.

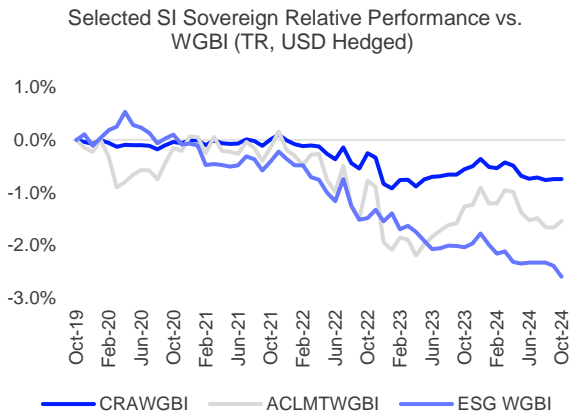


Chart 3: The ESG WGBI has a modest US overweight, while the climate indices are both underweight the US in favour of European sovereigns. Country allocation has led the recent relative performance.

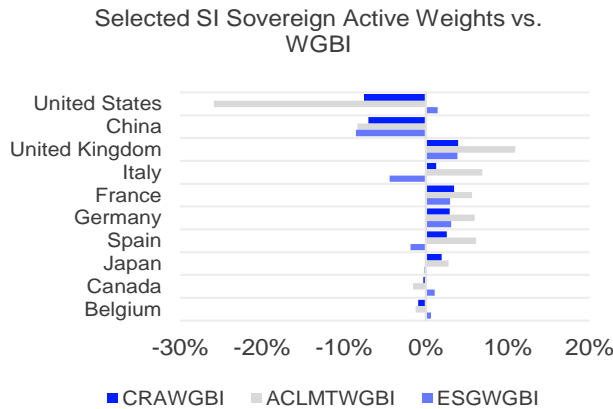


Chart 4: The ESG WGBI vs WGBI has a clear quality bias, implying that more developed, lower risk sovereigns are likely to have higher ESG scores than their less developed counterparts.

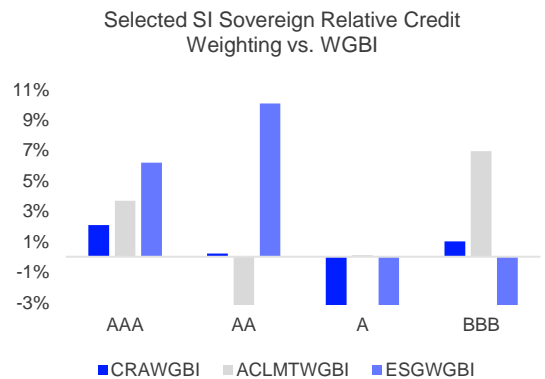


Chart 5: SI sovereign yields vs WGBI have risen over the last two years. The higher US yield increase vs Europe led to a fall in the Adv. Climate yields vs WGBI in October due to its large US underweight.

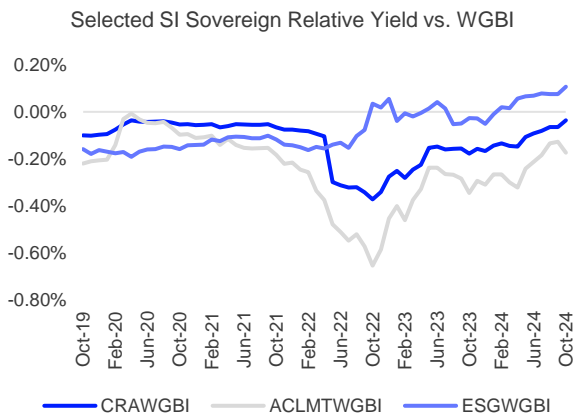
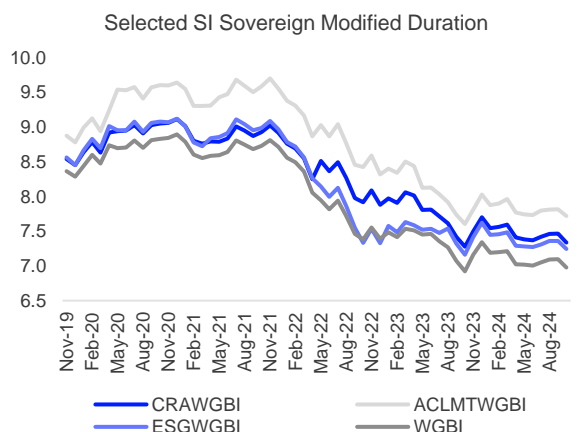


Chart 6: Despite falling over the last 3 years, there have been no major changes in duration for any of the indices over 12 months. The SI Sovereign indices have a positive active duration vs WGBI currently.



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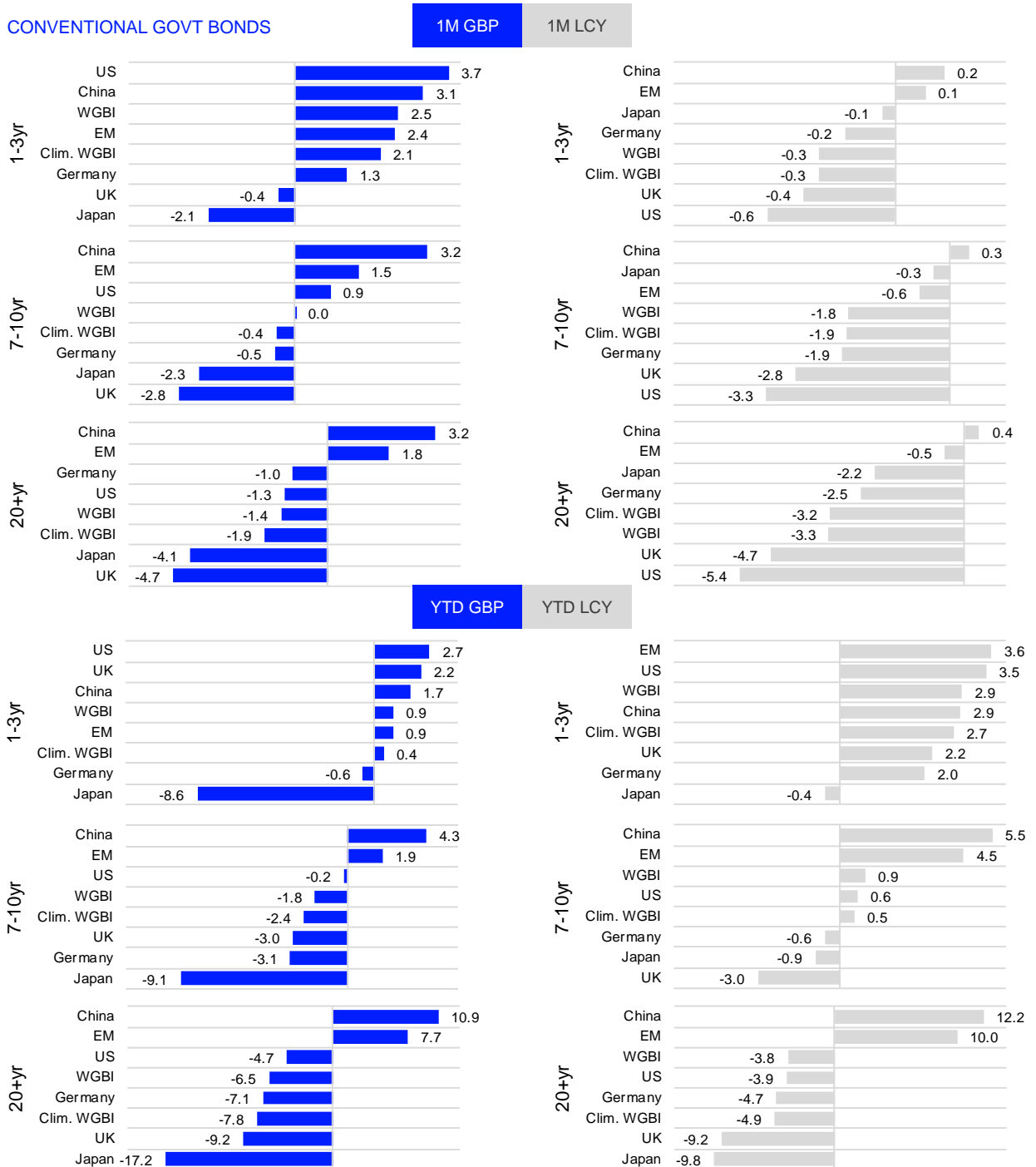
# Global Bond Market Returns – 1M & YTD % (GBP, LC, TR)

**Stronger US economic data for Q3, sticky US inflation data and fears about higher UK gilt issuance combined to drive negative returns in longer G7 gov bonds in October, led by long JGBs and gilts. Long gilts and JGBs lost 4-5%, in GBP as the yen fell sharply on adverse rate differentials. Longer gilts fell by up to 5% over October and 9% YTD.**

In a reversal of Q3 gains, longer gov bonds fell in October, as markets re-priced a slower Fed easing cycle, after unemployment fell and GDP grew by 2.8% in Q3. But shorter dated bonds managed gains of 1-4%, in GBP, led by short Treasuries and China.

Long China and EM bonds outperformed YTD, reflecting PBOC rate cuts, monetary easing, and deflation risks, and gained 8-11% YTD. In contrast, the extra duration in long gilts, and issuance fears, drove losses of about 6% YTD, though offset by sterling strength. JGB losses of 9-17% YTD in GBP terms dwarf losses elsewhere, though long gilts also lost 9% YTD.

## CONVENTIONAL GOVT BONDS



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

Inflation-linked bonds fell modestly in local currencies in October, though long US Tips and gilts fell 1-3% in sterling terms. US Tips fell on stronger US growth and sticky US inflation. JGB linkers fell about 1% in sterling terms, mainly on yen weakness. Credit fell a little in October, but is strongly ahead YTD with HY gains of 5-11%, led by EM.

Linkers drifted lower in October but reacted less than conventionals to stronger US data, and the prospect of slower Fed easing. Sterling fell a little, which enhanced overseas returns, with short Tips and WILSI showing gains of 1-4%.

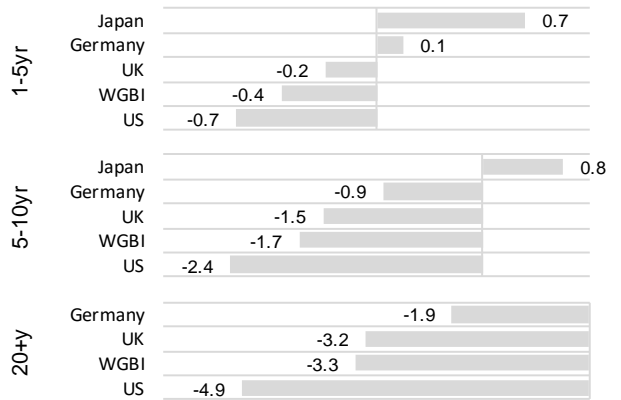
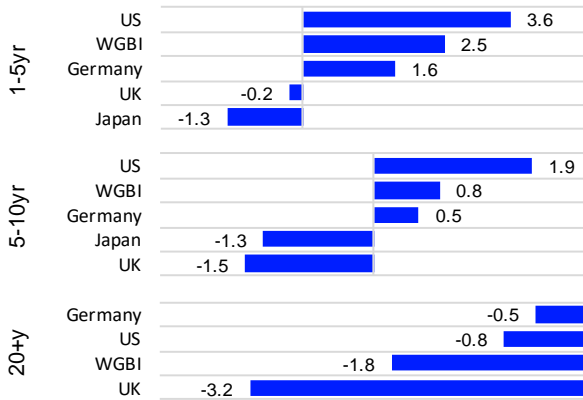
Sterling weakness also meant credit showed positive returns in October of up to 4% in GBP terms in Euro and EM.

HY credit remains the best performer YTD, and the least interest rate sensitive asset, but most strongly correlated to equities.

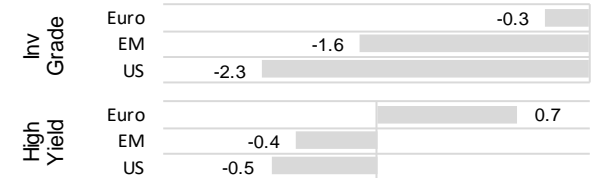
## INFLATION LINKED BONDS

1M GBP

1M LCY



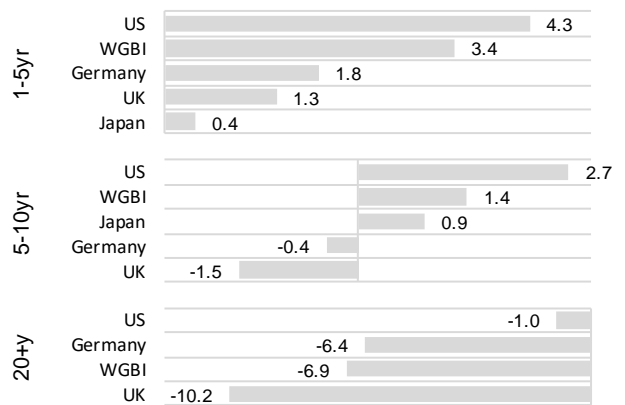
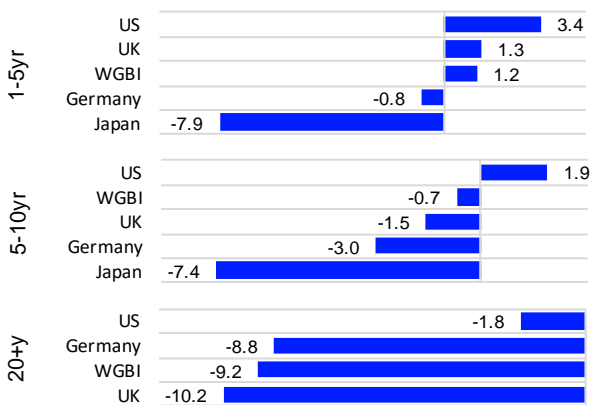
## CORPORATE BONDS



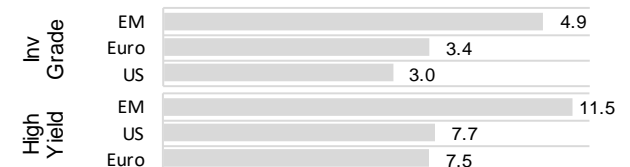
## INFLATION LINKED BONDS

YTD GBP

YTD LCY



## CORPORATE BONDS



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# Top and Bottom Bond Returns – 1M & 12M % (GBP, TR)

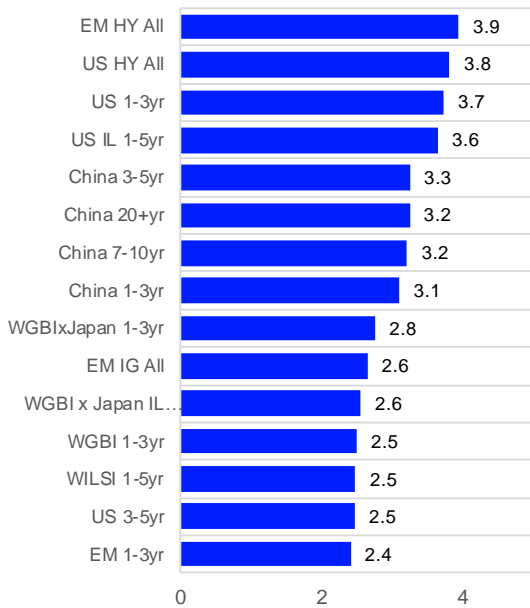
**Sterling weakness boosted overseas returns in GBP terms, with short Treasuries, US and EM HY all showing gains of about 4%. Long-dated Australasian bonds lost 4-10% on the month. On 12M however, Italian, Spanish, Chinese and NZ govt bonds have all gained between 12 and 21%, in GBP terms, helped by monetary easing from the PBOC and ECB.**

The Q3 bond market rally stalled in October, as stronger US growth caused a re-pricing of Fed easing prospects, and the dollar recovered. APAC bond markets suffered the biggest losses in GBP terms, and long UK inflation linked, which lost 3-5%.

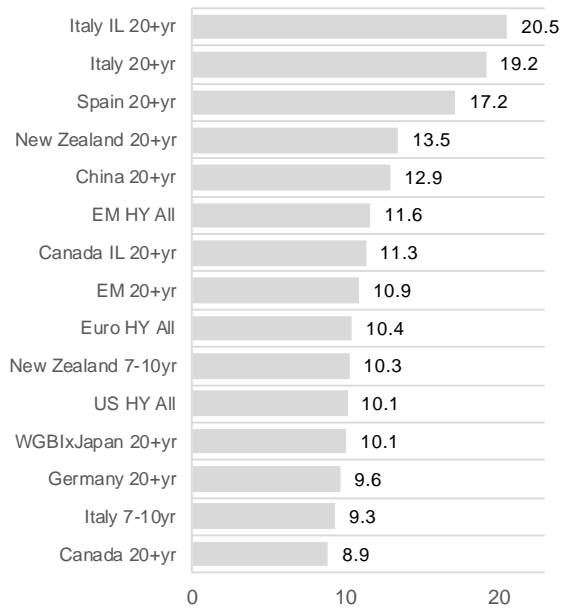
12M returns show a different picture, with central bank easing driving strong returns in the Eurozone, and high yields in NZ govts attracting investors. Long Italian, Spanish, Chinese and NZ govt bonds gained 12-21% on 12M, in GBP terms. Long JGBs and EM linker returns suffered from weak currencies.

1M GBP 12M GBP

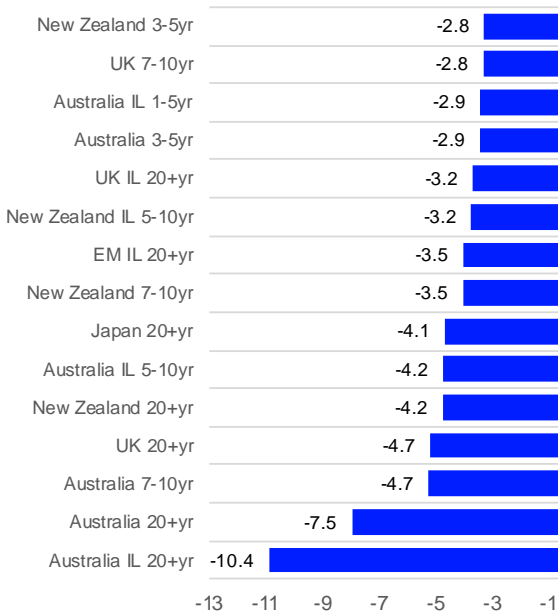
## Top 15



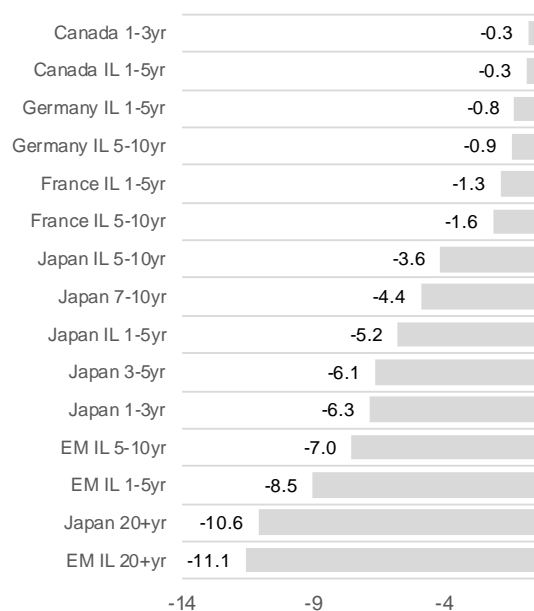
## Top 15



## Bottom 15



## Bottom 15



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# Appendix – Global Bond Market Returns % (GBP & LC, TR) – October 31, 2024

## 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    |
| <b>US</b>          | 1-3yr  | 1.12  | 1.02  | 3.57  | 0.87  | 3.53  | 2.65   | 5.76  | -0.17  |
|                    | 7-10yr | -0.67 | -0.76 | 5.37  | 2.62  | 0.64  | -0.21  | 9.38  | 3.24   |
|                    | 20+yr  | -1.42 | -1.51 | 6.96  | 4.18  | -3.89 | -4.71  | 15.26 | 8.79   |
|                    | IG All | 0.91  | 0.82  | 5.93  | 3.17  | 2.96  | 2.09   | 13.77 | 7.38   |
|                    | HY All | 2.80  | 2.71  | 6.97  | 4.19  | 7.66  | 6.75   | 16.67 | 10.12  |
| <b>UK</b>          | 1-3yr  | 0.52  | 0.52  | 2.50  | 2.50  | 2.23  | 2.23   | 4.38  | 4.38   |
|                    | 7-10yr | -2.19 | -2.19 | 1.70  | 1.70  | -2.97 | -2.97  | 5.05  | 5.05   |
|                    | 20+yr  | -4.70 | -4.70 | 0.96  | 0.96  | -9.17 | -9.17  | 6.73  | 6.73   |
| <b>Euro</b>        | IG All | 1.22  | 1.46  | 3.89  | 2.74  | 3.43  | 0.80   | 8.76  | 5.43   |
|                    | HY All | 2.94  | 3.19  | 5.73  | 4.56  | 7.50  | 4.76   | 13.91 | 10.42  |
| <b>Japan</b>       | 1-3yr  | 0.11  | -1.21 | -0.06 | 0.56  | -0.37 | -8.56  | -0.18 | -6.33  |
|                    | 7-10yr | 1.59  | 0.25  | 0.59  | 1.21  | -0.90 | -9.06  | 1.90  | -4.38  |
|                    | 20+yr  | 0.35  | -0.97 | -4.75 | -4.16 | -9.78 | -17.20 | -4.72 | -10.59 |
| <b>China</b>       | 1-3yr  | 0.50  | 1.98  | 1.63  | 0.73  | 2.91  | 1.71   | 3.49  | 0.46   |
|                    | 7-10yr | 0.39  | 1.87  | 2.86  | 1.95  | 5.51  | 4.27   | 6.82  | 3.69   |
|                    | 20+yr  | 0.87  | 2.35  | 5.82  | 4.89  | 12.17 | 10.86  | 16.33 | 12.93  |
| <b>EM</b>          | 1-3yr  | 0.84  | 1.74  | 2.39  | 0.50  | 3.65  | 0.87   | 4.70  | 0.49   |
|                    | 7-10yr | 0.71  | 1.74  | 4.00  | 2.45  | 4.47  | 1.91   | 8.37  | 4.10   |
|                    | 20+yr  | 1.18  | 2.22  | 6.12  | 4.45  | 10.04 | 7.72   | 15.14 | 10.89  |
|                    | IG All | 1.50  | 1.41  | 5.71  | 2.95  | 4.91  | 4.02   | 12.86 | 6.52   |
|                    | HY All | 2.68  | 2.58  | 7.40  | 4.60  | 11.50 | 10.56  | 18.27 | 11.63  |
| <b>Germany</b>     | 1-3yr  | 0.98  | 1.22  | 2.44  | 1.30  | 2.04  | -0.56  | 3.61  | 0.45   |
|                    | 7-10yr | -0.07 | 0.17  | 3.11  | 1.96  | -0.56 | -3.09  | 5.66  | 2.43   |
|                    | 20+yr  | -0.87 | -0.64 | 3.58  | 2.42  | -4.70 | -7.13  | 13.10 | 9.64   |
| <b>Italy</b>       | 1-3yr  | 1.09  | 1.33  | 2.78  | 1.64  | 2.77  | 0.15   | 4.89  | 1.69   |
|                    | 7-10yr | 1.44  | 1.68  | 4.49  | 3.32  | 4.17  | 1.51   | 12.74 | 9.30   |
|                    | 20+yr  | 2.06  | 2.30  | 5.43  | 4.26  | 5.73  | 3.03   | 22.92 | 19.16  |
| <b>Spain</b>       | 1-3yr  | 1.15  | 1.39  | 2.67  | 1.52  | 2.67  | 0.05   | 4.39  | 1.20   |
|                    | 7-10yr | 0.91  | 1.15  | 3.91  | 2.75  | 2.36  | -0.25  | 9.89  | 6.53   |
|                    | 20+yr  | 1.39  | 1.63  | 5.57  | 4.39  | 2.84  | 0.22   | 20.88 | 17.18  |
| <b>France</b>      | 1-3yr  | 1.14  | 1.38  | 2.60  | 1.45  | 2.02  | -0.58  | 3.89  | 0.72   |
|                    | 7-10yr | 0.02  | 0.25  | 1.73  | 0.60  | -1.37 | -3.88  | 5.57  | 2.35   |
|                    | 20+yr  | -1.03 | -0.80 | -0.32 | -1.43 | -6.77 | -9.14  | 11.98 | 8.56   |
| <b>Sweden</b>      | 1-3yr  | 1.15  | 1.22  | 3.56  | 3.46  | 3.39  | -3.45  | 5.19  | 3.67   |
|                    | 7-10yr | -0.17 | -0.10 | 4.48  | 4.38  | 1.33  | -5.37  | 9.54  | 7.95   |
| <b>Australia</b>   | 1-3yr  | 0.59  | 0.81  | 2.10  | 0.30  | 2.57  | -2.37  | 4.78  | 2.31   |
|                    | 7-10yr | -1.50 | -1.29 | 1.92  | 0.13  | -0.07 | -4.88  | 8.29  | 5.73   |
|                    | 20+yr  | -4.47 | -4.27 | -1.24 | -2.98 | -7.04 | -11.52 | 10.95 | 8.34   |
| <b>New Zealand</b> | 1-3yr  | 1.81  | 1.92  | 4.49  | 2.35  | 5.40  | -1.76  | 7.92  | 4.22   |
|                    | 7-10yr | 0.34  | 0.45  | 5.82  | 3.65  | 3.31  | -3.71  | 14.18 | 10.27  |
|                    | 20+yr  | -1.93 | -1.82 | 5.17  | 3.02  | -2.65 | -9.27  | 17.48 | 13.46  |
| <b>Canada</b>      | 1-3yr  | 1.40  | 0.39  | 3.70  | -0.46 | 4.02  | -2.43  | 6.09  | -0.27  |
|                    | 7-10yr | 0.38  | -0.61 | 6.46  | 2.19  | 2.07  | -4.26  | 10.38 | 3.76   |
|                    | 20+yr  | -0.38 | -1.37 | 10.01 | 5.60  | -2.33 | -8.39  | 15.81 | 8.86   |

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## Appendix – Global Bond Market Returns % (GBP & LC, TR) – October 31, 2024

### Inflation-Linked 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    |
| <b>US</b>          | 1-5yr  | 1.06  | 0.97  | 3.93  | 1.22   | 4.28   | 3.40   | 6.86  | 0.86   |
|                    | 5-10yr | 0.00  | -0.10 | 5.12  | 2.38   | 2.72   | 1.85   | 9.17  | 3.04   |
|                    | 20+yr  | -0.76 | -0.85 | 8.28  | 5.46   | -0.99  | -1.83  | 14.93 | 8.48   |
| <b>UK</b>          | 1-5yr  | -0.04 | -0.04 | 1.74  | 1.74   | 1.31   | 1.31   | 4.40  | 4.40   |
|                    | 5-10yr | -1.58 | -1.58 | 0.88  | 0.88   | -1.54  | -1.54  | 3.96  | 3.96   |
|                    | 20+yr  | -4.28 | -4.28 | 1.00  | 1.00   | -10.21 | -10.21 | 6.27  | 6.27   |
| <b>Japan</b>       | 1-5yr  | 0.58  | -0.74 | 1.06  | 1.68   | 0.37   | -7.89  | 0.98  | -5.24  |
|                    | 5-10yr | 1.41  | 0.08  | 0.68  | 1.30   | 0.85   | -7.44  | 2.71  | -3.62  |
| <b>EM</b>          | 1-5yr  | 2.45  | -1.48 | 5.47  | -7.62  | 7.45   | -9.17  | 10.28 | -8.51  |
|                    | 5-10yr | 1.33  | -1.91 | 4.38  | -7.03  | 2.69   | -11.10 | 8.30  | -7.01  |
|                    | 20+yr  | -0.75 | -4.23 | 1.12  | -11.56 | -5.33  | -19.49 | 5.09  | -11.07 |
| <b>Germany</b>     | 1-5yr  | 1.02  | 1.26  | 2.13  | 1.00   | 1.81   | -0.79  | 2.36  | -0.77  |
|                    | 5-10yr | -0.29 | -0.06 | 1.77  | 0.64   | -0.42  | -2.96  | 2.22  | -0.90  |
|                    | 20+yr  | -2.13 | -1.90 | -0.43 | -1.54  | -6.37  | -8.76  | 4.96  | 1.75   |
| <b>Italy</b>       | 1-5yr  | 1.10  | 1.33  | 2.66  | 1.51   | 2.80   | 0.18   | 5.39  | 2.16   |
|                    | 5-10yr | 1.12  | 1.36  | 3.00  | 1.86   | 3.93   | 1.28   | 10.68 | 7.29   |
|                    | 20+yr  | 1.10  | 1.34  | 0.98  | -0.14  | 3.97   | 1.32   | 24.35 | 20.55  |
| <b>Spain</b>       | 1-5yr  | 0.84  | 1.07  | 2.09  | 0.96   | 1.89   | -0.70  | 3.33  | 0.17   |
|                    | 5-10yr | 0.26  | 0.49  | 2.08  | 0.94   | 2.06   | -0.54  | 5.97  | 2.73   |
| <b>France</b>      | 1-5yr  | 0.56  | 0.80  | 1.39  | 0.27   | 0.44   | -2.12  | 1.78  | -1.33  |
|                    | 5-10yr | -0.50 | -0.27 | 0.02  | -1.09  | -1.91  | -4.41  | 1.49  | -1.62  |
|                    | 20+yr  | -3.10 | -2.87 | -5.85 | -6.89  | -10.87 | -13.14 | 5.23  | 2.01   |
| <b>Sweden</b>      | 1-5yr  | 0.25  | 0.32  | 2.37  | 2.27   | 2.29   | -4.47  | 4.15  | 2.65   |
|                    | 5-10yr | 0.16  | 0.23  | 3.34  | 3.24   | 2.29   | -4.47  | 7.82  | 6.26   |
| <b>Australia</b>   | 1-5yr  | -0.42 | -0.21 | 0.96  | -0.81  | 1.29   | -3.59  | 4.00  | 1.55   |
|                    | 5-10yr | -1.31 | -1.10 | 0.93  | -0.85  | -0.32  | -5.12  | 6.41  | 3.90   |
|                    | 20+yr  | -7.42 | -7.22 | -5.72 | -7.38  | -13.11 | -17.30 | 7.84  | 5.30   |
| <b>New Zealand</b> | 5-10yr | -0.05 | 0.06  | 3.19  | 1.08   | 3.42   | -3.61  | 10.79 | 6.99   |
| <b>Canada</b>      | 20+yr  | -0.43 | -1.42 | 10.08 | 5.66   | 2.09   | -4.24  | 18.44 | 11.33  |

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# Appendix – Historical Bond Yields % as of October 31, 2024

## Global Bond Yields

Top 15% Bottom 15%

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

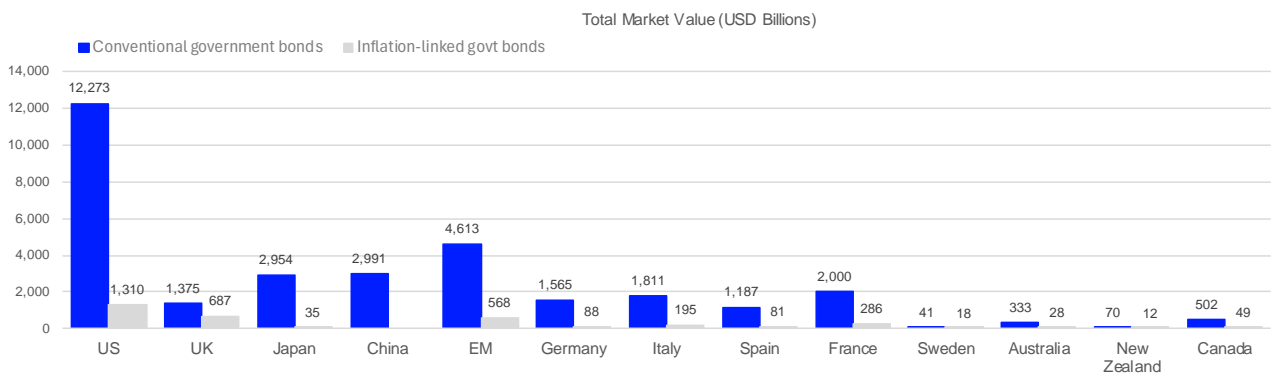
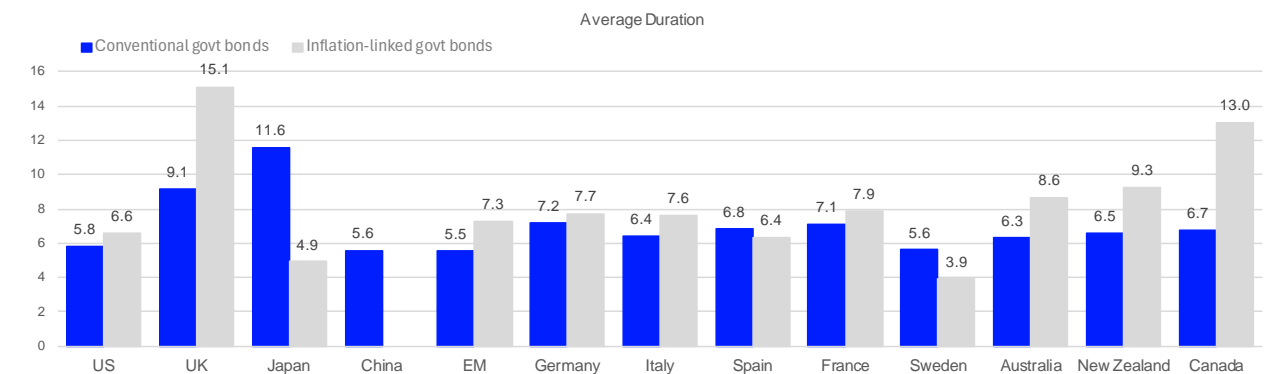
|                    |         | Conventional government bonds |       |        |       | Inflation-linked bonds |        |       | Inv Grade | High Yld |
|--------------------|---------|-------------------------------|-------|--------|-------|------------------------|--------|-------|-----------|----------|
|                    |         | 1-3YR                         | 3-5YR | 7-10YR | 20+YR | 1-5YR                  | 5-10YR | 20+YR | All Mat   | All Mat  |
| <b>US</b>          | Current | 4.21                          | 4.16  | 4.26   | 4.57  | 1.86                   | 1.88   | 2.19  | 5.18      | 7.48     |
|                    | 3M Ago  | 4.38                          | 3.99  | 4.02   | 4.42  | 2.13                   | 1.77   | 2.12  | 5.16      | 7.81     |
|                    | 6M Ago  | 5.09                          | 4.80  | 4.69   | 4.85  | 2.41                   | 2.24   | 2.44  | 5.75      | 8.22     |
|                    | 12M Ago | 5.17                          | 4.87  | 4.90   | 5.19  | 2.82                   | 2.50   | 2.64  | 6.38      | 9.46     |
| <b>UK</b>          | Current | 4.38                          | 4.23  | 4.37   | 4.80  | 0.58                   | 0.70   | 1.46  |           |          |
|                    | 3M Ago  | 4.19                          | 3.82  | 3.89   | 4.47  | 0.27                   | 0.37   | 1.25  |           |          |
|                    | 6M Ago  | 4.64                          | 4.31  | 4.28   | 4.72  | 0.30                   | 0.49   | 1.38  |           |          |
|                    | 12M Ago | 4.67                          | 4.45  | 4.43   | 4.91  | 0.65                   | 0.71   | 1.51  |           |          |
| <b>Japan</b>       | Current | 0.39                          | 0.50  | 0.80   | 2.12  | -1.08                  | -0.57  |       |           |          |
|                    | 3M Ago  | 0.37                          | 0.57  | 0.94   | 2.11  | -1.19                  | -0.59  |       |           |          |
|                    | 6M Ago  | 0.21                          | 0.39  | 0.76   | 1.86  | -1.21                  | -0.76  |       |           |          |
|                    | 12M Ago | 0.09                          | 0.34  | 0.83   | 1.82  | -1.55                  | -0.65  |       |           |          |
| <b>China</b>       | Current | 1.49                          | 1.72  | 2.12   | 2.37  |                        |        |       |           |          |
|                    | 3M Ago  | 1.53                          | 1.76  | 2.10   | 2.38  |                        |        |       |           |          |
|                    | 6M Ago  | 1.89                          | 2.06  | 2.34   | 2.61  |                        |        |       |           |          |
|                    | 12M Ago | 2.27                          | 2.42  | 2.67   | 3.08  |                        |        |       |           |          |
| <b>EM</b>          | Current | 3.21                          | 3.43  | 4.04   | 3.77  | 6.04                   | 5.46   | 5.91  | 5.33      | 7.71     |
|                    | 3M Ago  | 3.19                          | 3.48  | 4.18   | 3.73  | 5.77                   | 5.23   | 5.69  | 5.41      | 7.93     |
|                    | 6M Ago  | 3.42                          | 3.86  | 4.56   | 3.94  | 5.65                   | 5.21   | 5.67  | 6.01      | 9.15     |
|                    | 12M Ago | 3.71                          | 4.43  | 5.00   | 4.55  | 4.20                   | 4.73   | 5.46  | 6.71      | 11.34    |
| <b>Germany</b>     | Current | 2.29                          | 2.16  | 2.32   | 2.57  | 1.32                   | 0.50   | 0.55  |           |          |
|                    | 3M Ago  | 2.62                          | 2.25  | 2.21   | 2.50  | 1.57                   | 0.40   | 0.43  |           |          |
|                    | 6M Ago  | 3.08                          | 2.67  | 2.53   | 2.69  | 1.12                   | 0.46   | 0.43  |           |          |
|                    | 12M Ago | 3.09                          | 2.66  | 2.70   | 3.05  | 0.90                   | 0.45   | 0.65  |           |          |
| <b>Italy</b>       | Current | 2.71                          | 2.86  | 3.40   | 4.05  | 1.27                   | 1.52   | 1.86  |           |          |
|                    | 3M Ago  | 2.99                          | 2.97  | 3.43   | 4.10  | 1.45                   | 1.58   | 1.87  |           |          |
|                    | 6M Ago  | 3.45                          | 3.38  | 3.68   | 4.24  | 1.25                   | 1.54   | 1.79  |           |          |
|                    | 12M Ago | 3.77                          | 3.88  | 4.45   | 5.06  | 1.77                   | 2.35   | 2.53  |           |          |
| <b>France</b>      | Current | 2.48                          | 2.64  | 2.96   | 3.50  | 0.94                   | 0.94   | 1.20  |           |          |
|                    | 3M Ago  | 2.78                          | 2.68  | 2.87   | 3.40  | 0.98                   | 0.81   | 1.05  |           |          |
|                    | 6M Ago  | 3.17                          | 2.93  | 2.96   | 3.39  | 0.72                   | 0.65   | 0.86  |           |          |
|                    | 12M Ago | 3.21                          | 3.01  | 3.23   | 3.88  | 0.93                   | 0.78   | 1.28  |           |          |
| <b>Sweden</b>      | Current | 1.84                          | 1.89  | 2.07   |       | 0.71                   | 0.42   |       |           |          |
|                    | 3M Ago  | 2.15                          | 1.96  | 1.98   |       | 0.95                   | 0.51   |       |           |          |
|                    | 6M Ago  | 3.14                          | 2.68  | 2.50   |       | 1.60                   | 0.85   |       |           |          |
|                    | 12M Ago | 3.43                          | 3.05  | 2.94   |       | 1.34                   | 1.30   |       |           |          |
| <b>Australia</b>   | Current | 4.06                          | 4.04  | 4.42   | 4.97  | 1.81                   | 1.97   | 2.46  |           |          |
|                    | 3M Ago  | 3.86                          | 3.76  | 4.07   | 4.62  | 1.38                   | 1.56   | 2.04  |           |          |
|                    | 6M Ago  | 4.16                          | 4.05  | 4.36   | 4.75  | 1.40                   | 1.71   | 2.06  |           |          |
|                    | 12M Ago | 4.49                          | 4.48  | 4.87   | 5.33  | 1.47                   | 2.04   | 2.53  |           |          |
| <b>New Zealand</b> | Current | 3.81                          | 3.91  | 4.41   | 5.01  |                        | 2.42   |       |           |          |
|                    | 3M Ago  | 4.21                          | 4.04  | 4.31   | 4.81  | 2.47                   | 2.21   |       |           |          |
|                    | 6M Ago  | 5.16                          | 4.77  | 4.85   | 5.17  | 2.29                   | 2.51   |       |           |          |
|                    | 12M Ago | 5.49                          | 5.37  | 5.55   | 5.69  | 2.47                   | 3.05   |       |           |          |
| <b>Canada</b>      | Current | 3.11                          | 3.01  | 3.21   | 3.29  | 1.36                   | 1.41   | 1.56  |           |          |
|                    | 3M Ago  | 3.64                          | 3.11  | 3.15   | 3.23  | 1.41                   | 1.34   | 1.52  |           |          |
|                    | 6M Ago  | 4.47                          | 3.92  | 3.82   | 3.70  | 1.97                   | 1.98   | 1.90  |           |          |
|                    | 12M Ago | 4.70                          | 4.18  | 4.09   | 3.88  | 2.25                   | 2.32   | 2.21  |           |          |

Source: FTSE Russell and LSEG. All data as of October 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 – Duration and Market Value (USD, Bn) as of October 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          |
| <b>US</b>          | 3.6                           | 7.1    | 16.4  | <b>5.8</b>  | 2,882.6      | 1,199.7 | 1,413.1 | <b>12,272.9</b> | 7.1                               | 21.3  | <b>6.6</b>  | 423.2        | 121.7 | <b>1,310.5</b> |
| <b>UK</b>          | 3.6                           | 7.2    | 17.9  | <b>9.1</b>  | 191.1        | 240.7   | 330.6   | <b>1,374.5</b>  | 7.5                               | 26.9  | <b>15.1</b> | 127.1        | 231.8 | <b>687.3</b>   |
| <b>Japan</b>       | 3.9                           | 8.3    | 23.1  | <b>11.6</b> | 347.6        | 411.3   | 595.1   | <b>2,953.6</b>  | 8.0                               |       | <b>4.9</b>  | 14.0         |       | <b>34.9</b>    |
| <b>China</b>       | 3.7                           | 7.6    | 18.0  | <b>5.6</b>  | 697.7        | 498.5   | 323.0   | <b>2,990.8</b>  |                                   |       |             |              |       |                |
| <b>EM</b>          | 3.6                           | 7.1    | 16.4  | <b>5.5</b>  | 1,004.7      | 791.4   | 427.8   | <b>4,613.3</b>  | 5.9                               | 13.0  | <b>7.3</b>  | 96.0         | 146.1 | <b>567.8</b>   |
| <b>Germany</b>     | 3.6                           | 7.7    | 21.2  | <b>7.2</b>  | 337.3        | 235.6   | 170.4   | <b>1,565.3</b>  | 6.2                               | 20.6  | <b>7.7</b>  | 44.2         | 18.0  | <b>88.2</b>    |
| <b>Italy</b>       | 3.6                           | 7.2    | 17.0  | <b>6.4</b>  | 310.6        | 282.3   | 153.0   | <b>1,810.7</b>  | 7.1                               | 25.3  | <b>7.6</b>  | 59.3         | 5.7   | <b>195.4</b>   |
| <b>Spain</b>       | 3.7                           | 7.2    | 17.8  | <b>6.8</b>  | 249.4        | 215.2   | 119.0   | <b>1,186.6</b>  | 7.2                               |       | <b>6.4</b>  | 51.1         |       | <b>81.5</b>    |
| <b>France</b>      | 3.6                           | 7.4    | 19.2  | <b>7.1</b>  | 415.4        | 341.0   | 241.5   | <b>1,999.8</b>  | 6.6                               | 23.7  | <b>7.9</b>  | 77.2         | 21.7  | <b>286.3</b>   |
| <b>Sweden</b>      | 3.4                           | 7.5    |       | <b>5.6</b>  | 6.8          | 10.0    |         | <b>41.0</b>     | 6.4                               |       | <b>3.9</b>  | 5.9          |       | <b>18.4</b>    |
| <b>Australia</b>   | 3.5                           | 7.2    | 16.2  | <b>6.3</b>  | 50.7         | 97.3    | 19.2    | <b>332.9</b>    | 6.2                               | 21.3  | <b>8.6</b>  | 10.6         | 2.6   | <b>28.1</b>    |
| <b>New Zealand</b> | 3.8                           | 7.2    | 15.7  | <b>6.5</b>  | 13.6         | 17.7    | 5.3     | <b>69.7</b>     | 5.3                               |       | <b>9.3</b>  | 3.2          |       | <b>11.6</b>    |
| <b>Canada</b>      | 3.9                           | 7.3    | 19.3  | <b>6.7</b>  | 83.3         | 113.6   | 73.6    | <b>501.8</b>    | 6.1                               | 20.2  | <b>13.0</b> | 8.2          | 20.2  | <b>49.2</b>    |

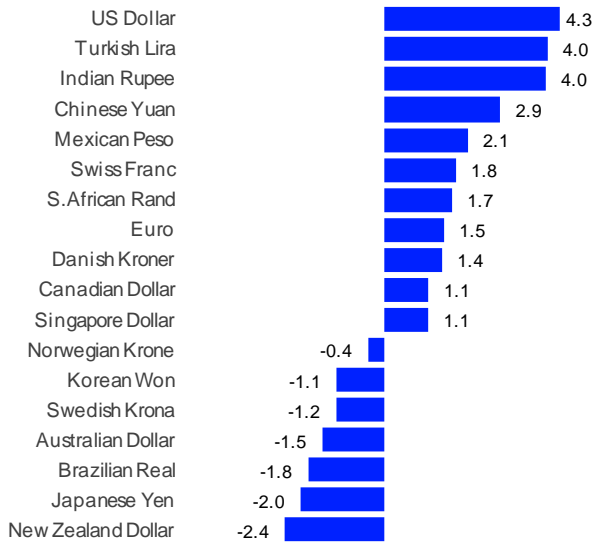
|               | Investment grade bonds |     |     |     |         |              |       |        |        |         | High Yield |        |
|---------------|------------------------|-----|-----|-----|---------|--------------|-------|--------|--------|---------|------------|--------|
|               | Duration               |     |     |     |         | Market Value |       |        |        |         | Duration   | MktVal |
|               | AAA                    | AA  | A   | BBB | Overall | AAA          | AA    | A      | BBB    | Overall |            |        |
| <b>US</b>     | 10.2                   | 8.4 | 7.1 | 6.6 | 6.9     | 75.6         | 459.3 | 2812.8 | 3659.7 | 7007.5  | 3.8        | 1097.2 |
| <b>Europe</b> | 6.0                    | 4.8 | 4.6 | 4.2 | 4.4     | 15.5         | 221.9 | 1270.9 | 1601.3 | 3109.6  |            |        |
| <b>EM</b>     |                        | 6.6 | 5.5 | 5.4 | 5.5     |              | 38.0  | 207.8  | 235.5  | 481.2   | 3.6        | 190.0  |



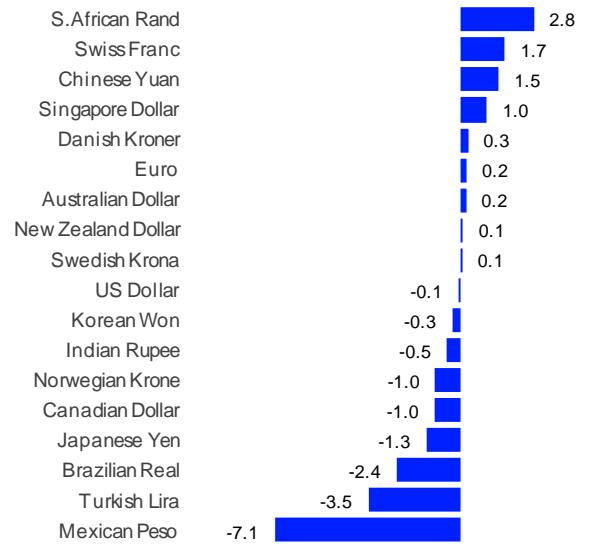
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## Appendix – Foreign Exchange Returns % as of October 31, 2024

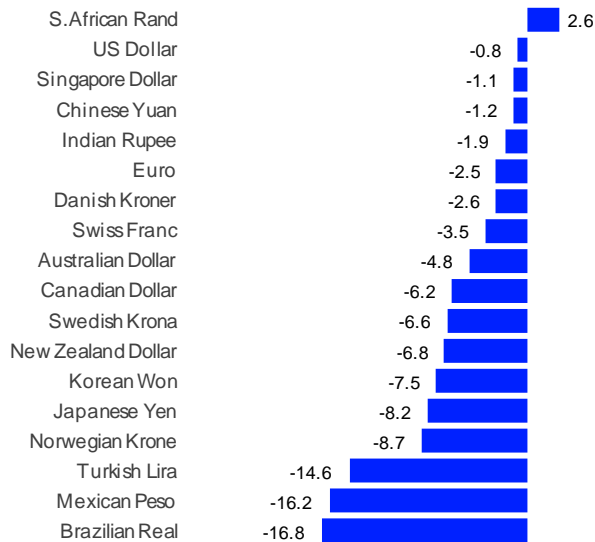
### FX Moves vs GBP - 1M



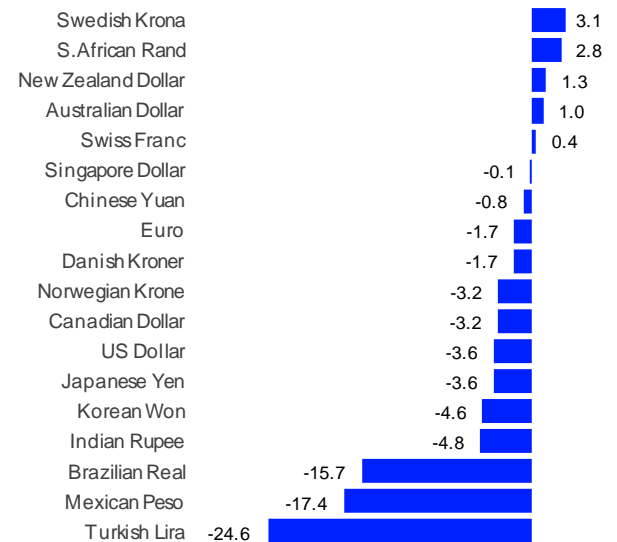
### FX Moves vs GBP - 3M



### FX Moves vs GBP - YTD



### FX Moves vs GBP - 12M



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## 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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