Fixed Income Insights

MONTHLY REPORT – **SEPTEMBER 2023 | UK EDITION** FOR PROFESSIONAL INVESTORS ONLY

Gilt market re-pricing for a new normal of 3-6% rates?

Gilt market focus remained on UK wage inflation in August, as yields rose. Second round UK inflation effects suggest a protracted monetary tightening. If 3-6% rates are the new normal, income and carry may supplant duration as key factors. Chinese government bonds and high yield credit remain best performing sectors.

Chart 1: Real yields increased in August, led by US Tips, in response to stronger Q3 real growth, and hawkish central banks.

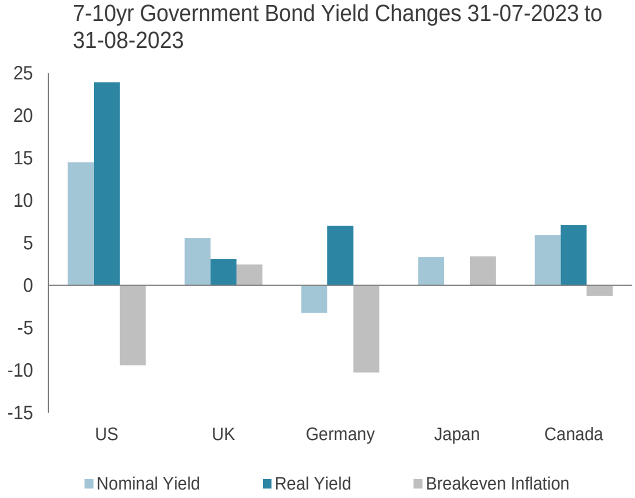
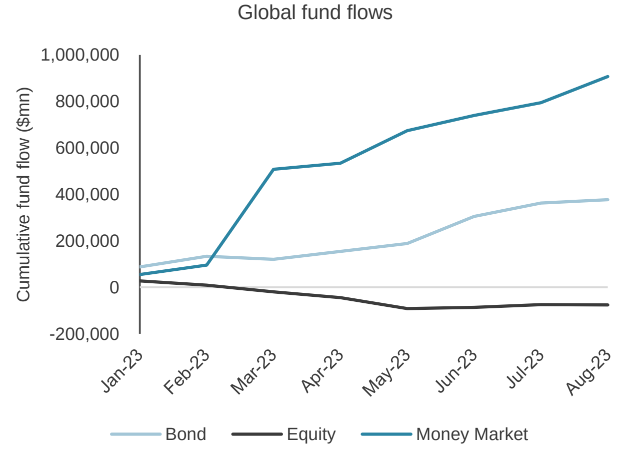


Chart 2: Fixed income has not rewarded inflows in 2023. Money market inflows suggest investors prepare for "higher for longer" rates.



Source: FTSE Russell. All data as of August 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

Real growth has withstood higher rates in 2022-23, without G7 recessions (apart from a mild Eurozone version) helped by buoyant consumer spending, as savings ratios fell. But unlike the “immaculate disinflation” in the US, UK disinflation is proving more elusive in 2023, particularly at the core level, given wage inflation pressures. China is an inflation outlier as a distressed property sector and weak consumer spending increase deflation risks.

Recessions have disappeared from 2023 Consensus Forecasts, as service sector growth and employment remain resilient to higher rates (Chart 1). UK consumer spending has been underpinned by high levels of employment and real income growth recovering. Chinese forecasts carry most uncertainty, after a weak Q2, as property woes persist, and consumers become more cautious, post-Covid. Japanese growth is benefitting from the recovery in services, after Lockdowns were lifted, led by tourism.

Chart 2 shows steep disinflation in Q2 2023, helped by y/y base effects, which continued in the UK in July, as headline inflation dropped to 6.8%. However, UK core inflation has barely dropped from the cyclical peak of 7.1% y/y, to the current 6.9% y/y, so evidence it is trending lower is less obvious. In the absence of more UK fiscal policy restraint, which is unlikely as the election approaches, pressure will remain on interest rates to restrain UK demand growth sufficiently to achieve the UK inflation target.

Personal savings ratios have returned to pre-Covid levels in the US and UK, helped by the earlier end to lockdowns in Europe and the US, than Asia (Chart 3). Covid windfalls from fiscal support and low unemployment may have outweighed the impact of higher rates on savings to date. Only in China is there evidence of more consumer caution, post-Covid.

The UK labour market remains the biggest challenge for the BoE, with little sign of average earnings growth slowing, and ongoing labour shortages (Chart 4). Indeed, UK average earnings growth accelerated to 7.8% y/y in June, and wage growth now exceeds the inflation rate, as labour militancy increases, and wage bargaining adapts to higher inflation rates, led by the public sector. Also note UK labour force participation has fallen since Covid, as workers have left the labour force.

Chart 1: Consensus G7 GDP forecasts show no recessions in 2023-24, despite the policy tightening, as consumers sustain spending. But Chinese forecasts are most at risk, as consumer caution prevails.

Latest Consensus Real GDP Forecasts (%, August 2023)			
	2022	**2023**	**2024**
US	2.1	**1.9**	**0.9**
UK	4.1	**0.3**	**0.5**
Eurozone	3.3	**0.6**	**0.9**
Japan	1.6	**1.8**	**0.9**
China	3.0	**5.5**	**4.8**
Canada	3.5	**1.3**	**1.0**

Chart 2: UK headline inflation fell in July, as the July 2022 energy price increase dropped from the index, but core inflation remains high, at 6.9% y/y, and wage inflation of 7.8% y/y is exerting further upward pressure.

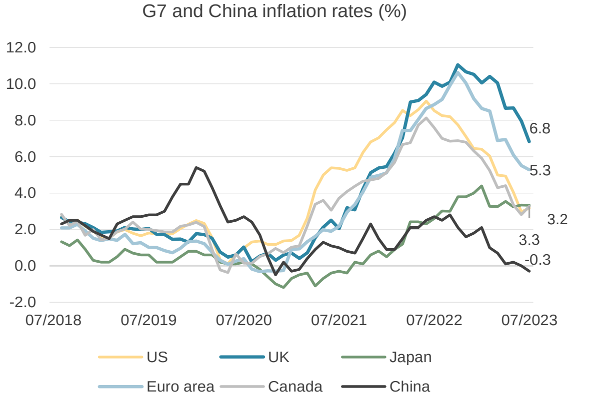


Chart 3: Consumer spending has been sustained by a fall in savings in the UK and US, despite higher rates, and the cost of living squeeze. Low unemployment and Covid fiscal support have supported consumers.

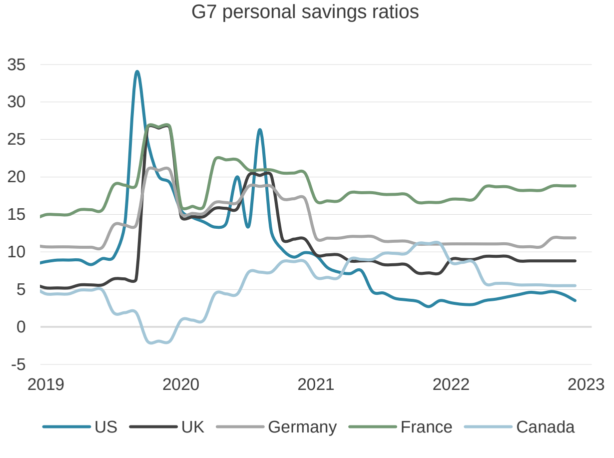
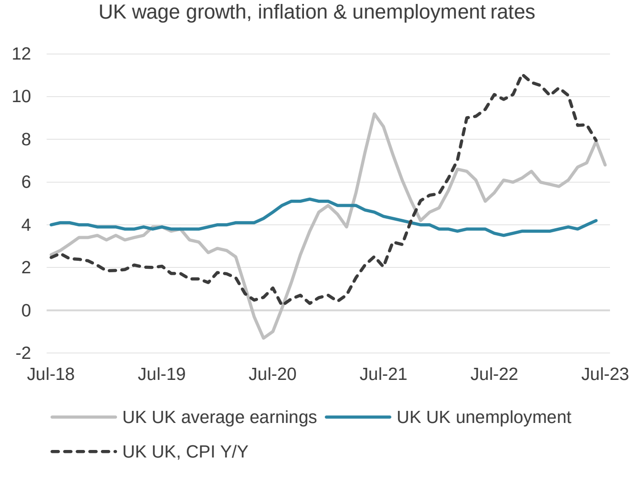


Chart 4: There are signs of UK wage inflation adapting to higher inflation, and the latest CPI data (6.8% y/y July) is below the latest average earnings growth y/y (7.9% y/y in 3 months to June).



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Financial Conditions and Monetary Policy Settings

G7 central banks, ex BoJ, have tightened financial conditions by raising rates since March 2022, even if the tightening is less severe because of very accommodative 2020-21 conditions. Currency moves reflect rate differentials with the yen and renminbi weakest, and dollar strongest. Sterling is underpinned by higher UK rates bearing the brunt of inflation control.

The collapse in UK M2 growth since 2020-21 confirms the tightening in financial conditions, also reflected in the strength of sterling in 2023 and the deeply inverted UK yield curve. However, fintech and reduced use of cash has made M2 velocity unstable, and a less reliable leading indicator of inflation, particularly when external shocks (Covid supply-chains, Ukraine, etc) were the initial cause of the inflation.

Interest rate differentials and policy settings have dominated currency movements in 2023 (Chart 2). Both the renminbi and yen fell back in August, after further policy easing by the PBoC, and after the initial yen rally on the easing of curve control evaporated. Sterling has rallied strongly in 2023, underpinned by reliance on monetary policy, and higher UK rates, to squeeze inflation.

G7 central banks left options open to tighten policy again, after the August moves, as the stronger pass-through of wage increases to service sector inflation is a challenge (Chart 3). The BoE August inflation report is forecasting UK inflation at 5% at end-2023, and not returning to the 2% target until Q2 2025, and also signals concern about second round effects on domestic inflation. With wage growth now near 8% y/y, this suggests a protracted UK monetary tightening.

Quantitative tightening (QT) in the G7, ex Japan, continues, even if rates are the main inflation control instrument, with QT carrying no signalling content. The BoE targeted QT of about £100bn in 2022-23, with £20bn in corporates and £80bn in gilts. Higher gilt redemptions in 2023-24 may allow the £80bn gilt holding reduction target to be raised though corporate bond sales are complete.

Chart 1: UK M2 growth has recovered from the lows but has not proved a reliable lead indicator for UK inflation, falling sharply in 2021-22, in advance of inflation accelerating.

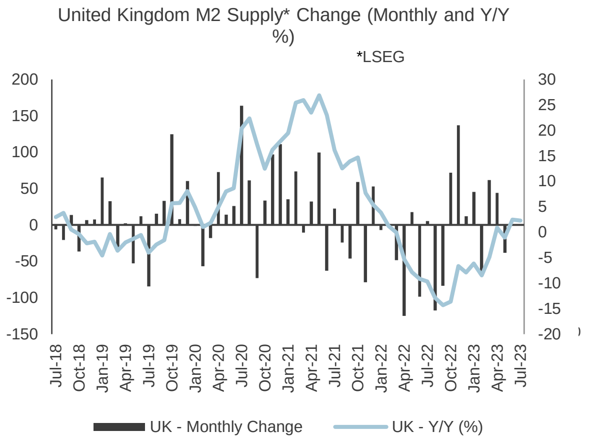


Chart 1: Currencies have been strongly correlated with rate differentials in 2023, with yen and renminbi weakest. Sterling has rallied with higher rates, but the UK's stagflation is not helpful for the currency.

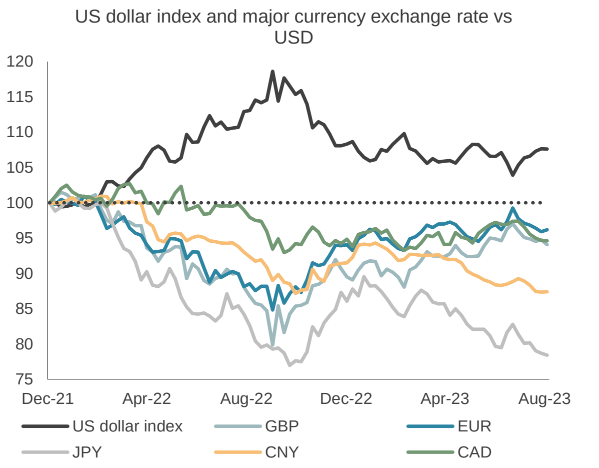


Chart 3: Central banks, ex the BoJ and PBoC, remain reluctant to rule out further rate increases, as they seek to recover low inflation regimes, even if this increases the risk of doing too much, too late.

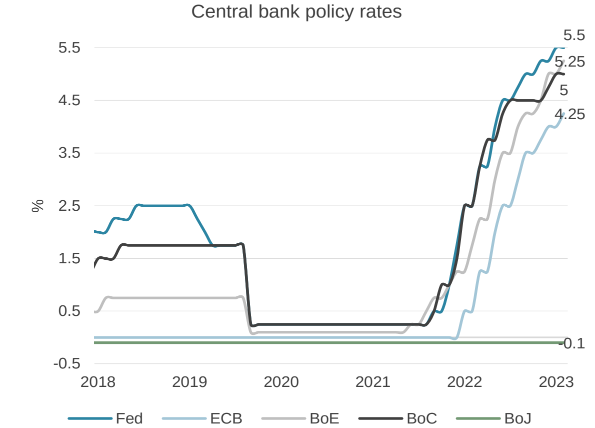
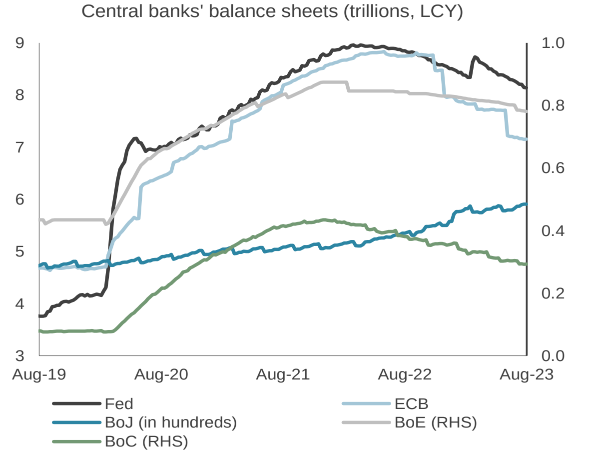


Chart 4: The BoE will announce shortly the target gilt reduction for 2023-24, after reducing its gilt & corporate bond holdings by about £100bn in 2022-23. Base rates remain the main policy instrument.



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Global Yields, Curves and Spread Analysis

Chart 1: G7 7-10-year yields trended higher in August, as markets priced in the prospect of higher rates for longer, despite lower Q3 inflation. JGB yields increased as curve control was eased.

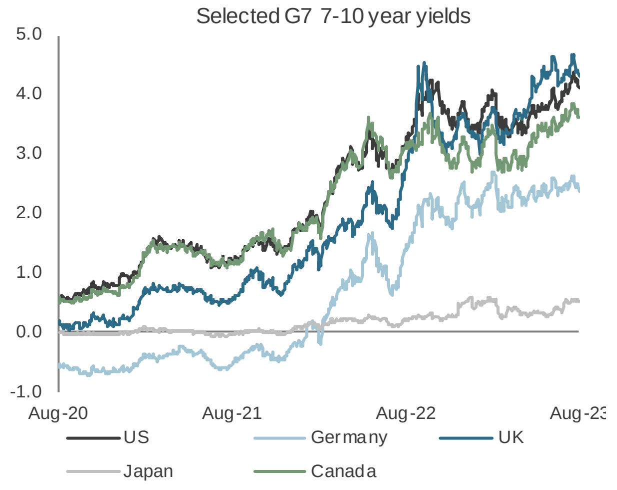


Chart 2: Real yields edged higher in August, as real growth proved resilient, and central banks signalled no early respite on rates. Lower inflation helped UK linkers but wage inflation remains the key issue.

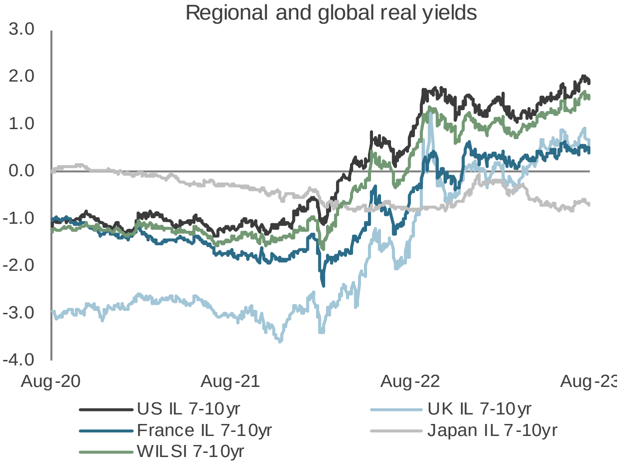


Chart 3: Yield curves dis-inverted somewhat, as longer yields rose. This may suggest markets are adjusting further to the end of zero rates. The JGB curve steepened on BoJ flexing of curve control.

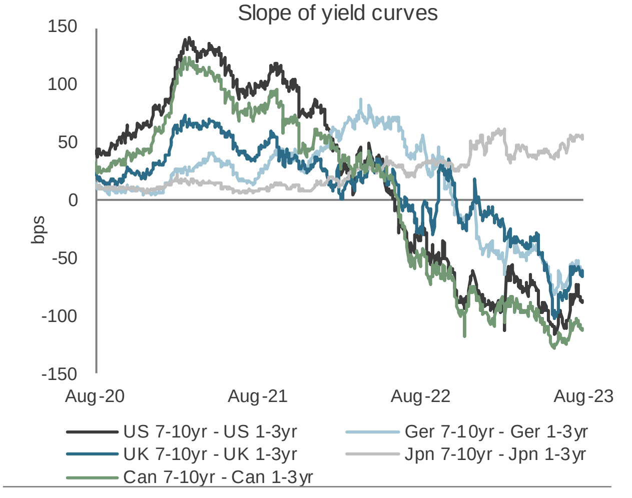


Chart 4: Long end yields also rose, as investor concerns about re-investment risk eased, on the view yields may now have entered higher trading ranges. However, curves remain inverted, ex JGBs.

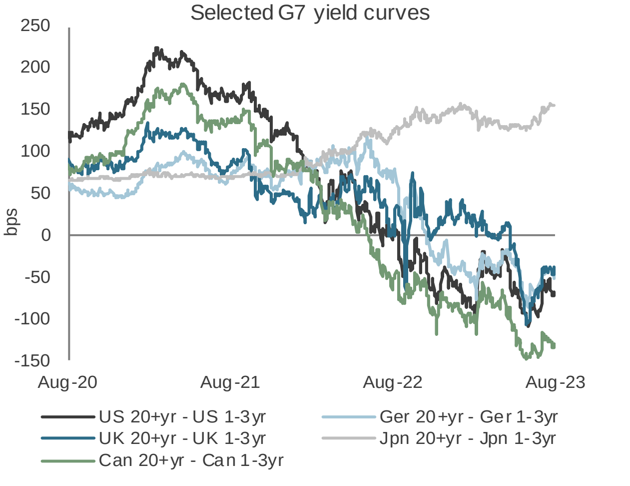


Chart 5: WGBI breakevens edged lower in August, but JGB breakevens increased modestly, as inflation linked yields rose less than nominals. Breakevens normally move pro-cyclically with yields

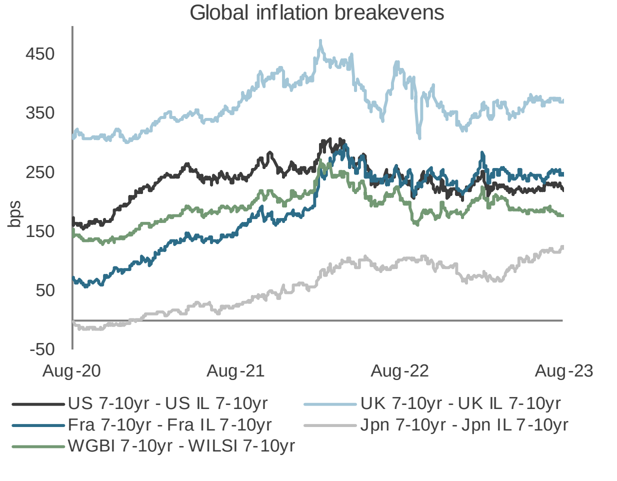
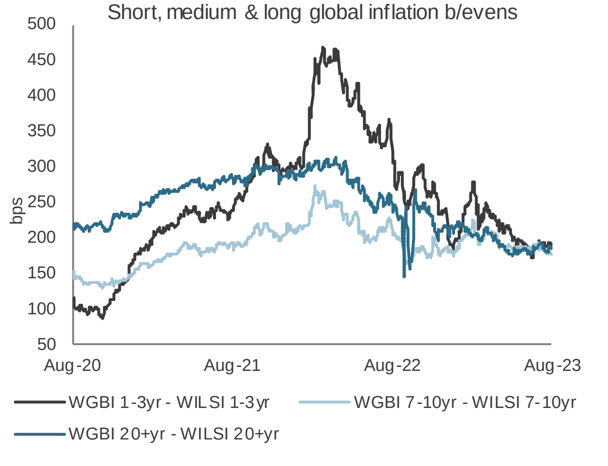


Chart 6: Overall, global inflation breakevens of all tenors remain stable around 2%, after a period of higher short-dated breakevens, with little evidence of inflation expectations de-stabilising.



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Yield Spread and Credit Spread Analysis

Chart 1: Treasuries led global yields higher in August, spooked by stronger Q3 US growth, with spreads widening accordingly. Apart from JGBs and gilts, Treasuries are returning to pre-Covid spreads.

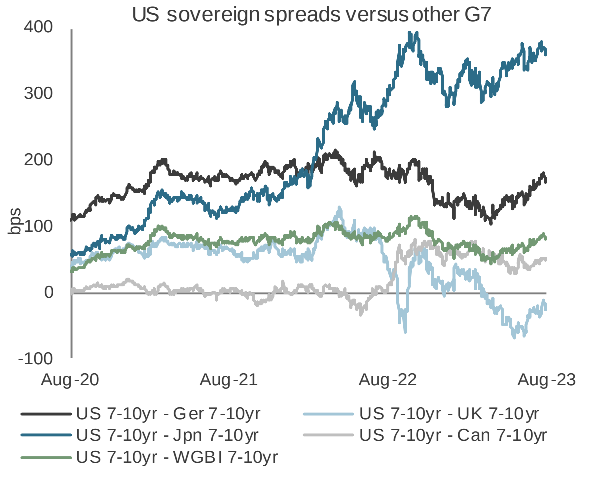


Chart 2: Italian sovereign spreads fell further in August, continuing the decline of recent months, helped by increased foreign investment, and the continuing decline in the debt/GDP ratio.

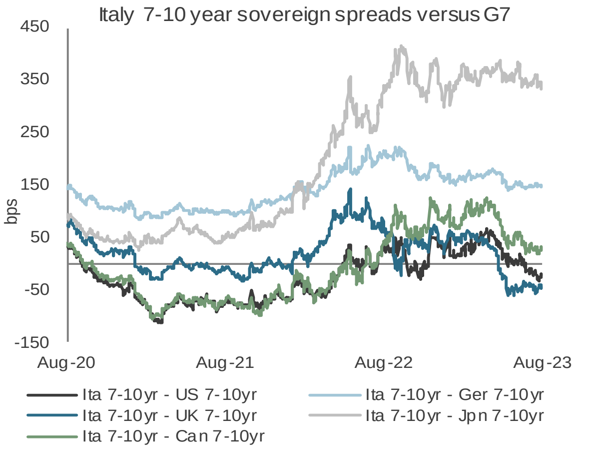


Chart 3: Emerging Market sovereign spreads remain near multi-year lows, reflecting EM success in early counter-inflation measures in 2021-22, and QE support during the initial Covid crisis in 2020.

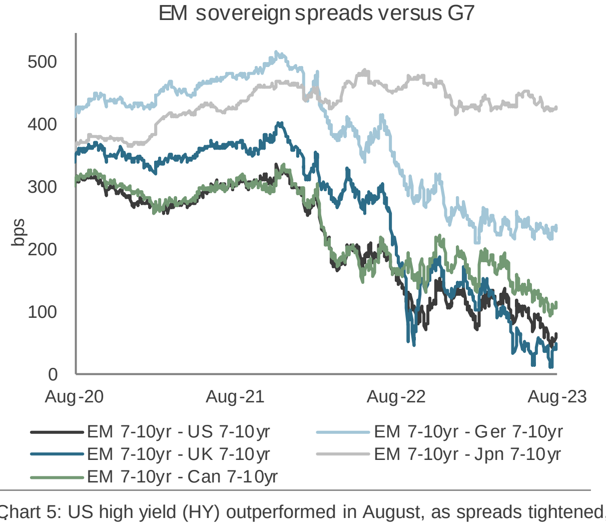


Chart 4: China's strong negative correlation with G7 yields continues, as concern about debt-deflation drove Chinese yields lower in August, while stronger growth drove G7 yields higher.

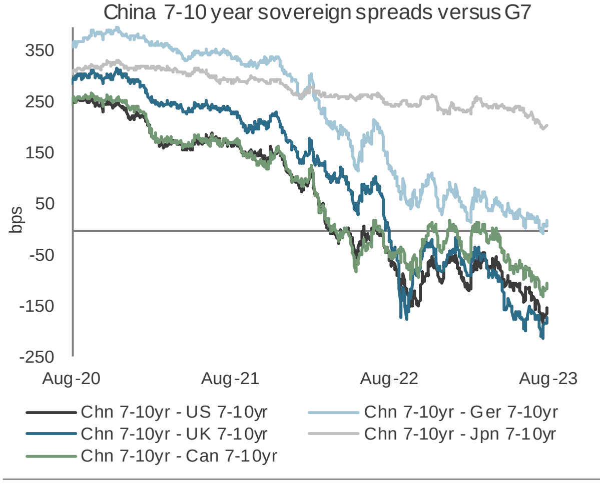


Chart 5: US high yield (HY) outperformed in August, as spreads tightened, as Eurozone HY spreads flat-lined. Closer correlation of IG credit with government bonds has meant more stable IG spreads.

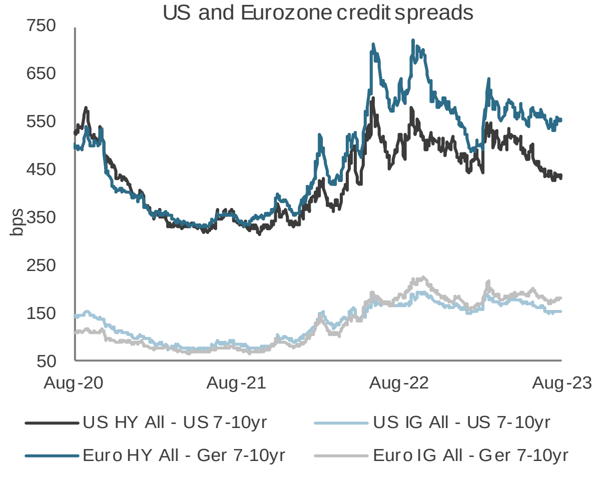
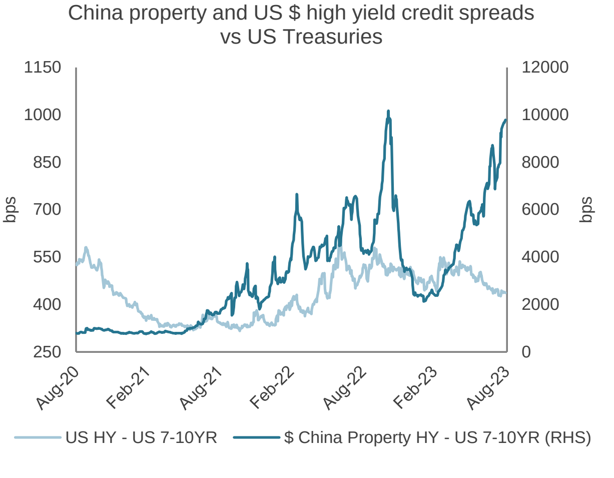


Chart 6: Chinese $ HY spreads surged back to November highs, completely reversing the Q1 tightening. Widening spreads didn't reflect the easier mortgage policies unveiled by the PBOC in late August.



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Sovereign and Climate Bonds Analysis

Chart 1: Climate WGBI outperformed WGBI during the years of very low yields, helped by extra duration, but this reversed in 2022, when duration squeezed returns hard. This has stabilised in 2023.

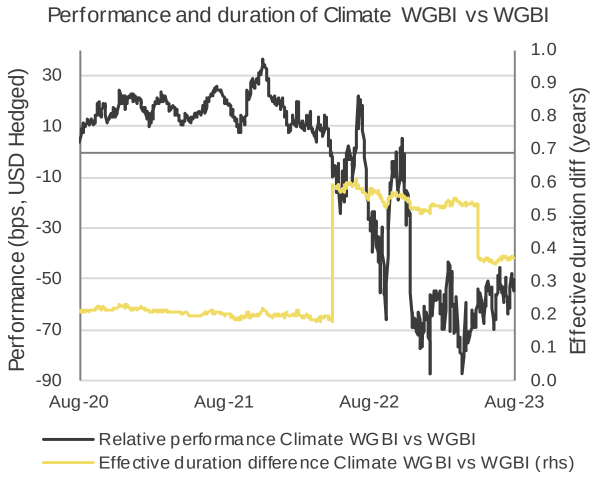


Chart 2: US underweight in the Climate WGBI fell in July's re-weighting, reducing the duration difference vs WGBI. China's 15% underweight prevented lower Chinese yields impacting Climate-WGBI significantly.

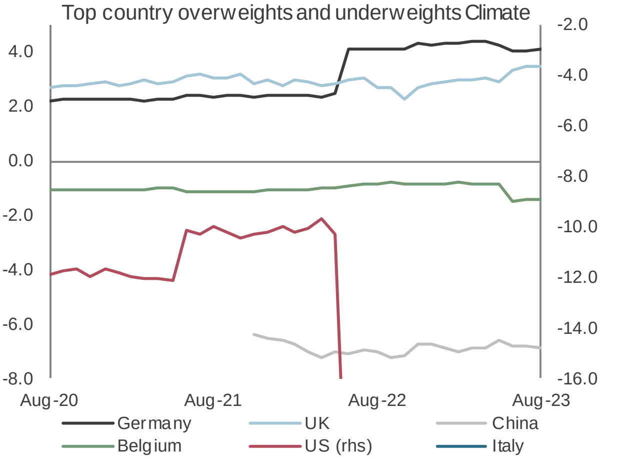


Chart 3: Climate WGBI yields remain below WGBI, though the differential narrowed after the increase in JGB yields since curve control was eased, due to Japan's high weight in the climate WGBI.

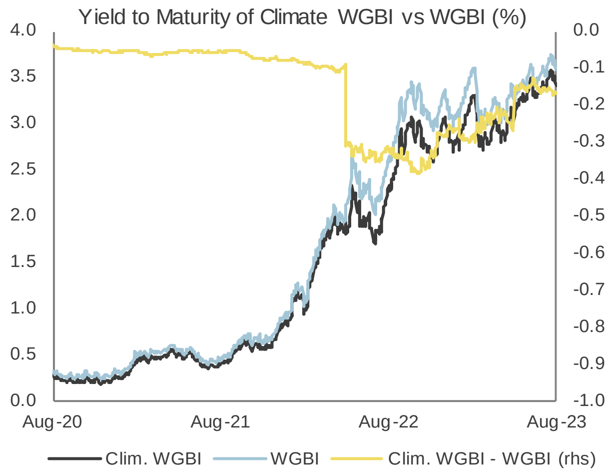


Chart 4: Climate WGBI's higher weighting in the Eurozone gives the index higher AAA weight, with Bunds rated AAA, but the lower US weighting in climate WGBI means the AA weight is notably lower.

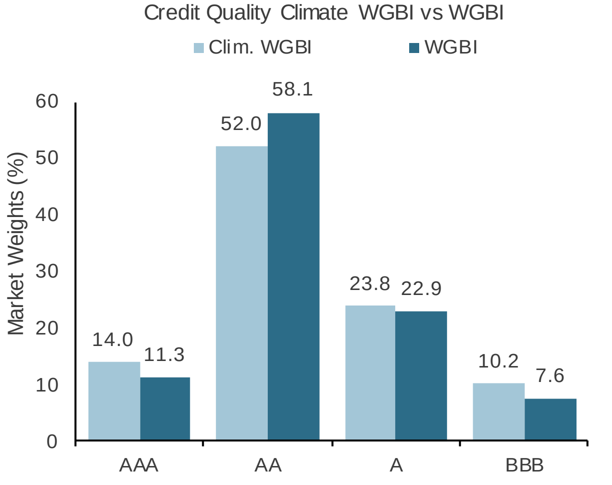


Chart 5: Although curves dis-inverted a little in August, with longer yields rising, yields remain close to 3% in both WGBI and climate WGBI in 2023, eliminating most of the "greenium" in climate WGBI.

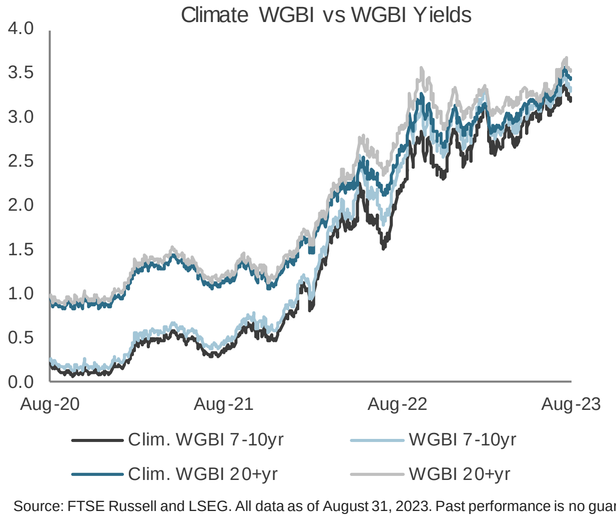
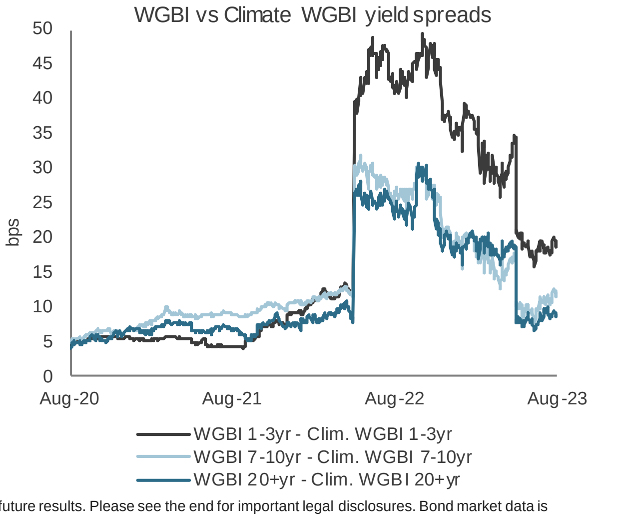


Chart 6: The "greenium" or yield discount on Climate-WGBI increased when Japan's weight increased, and the US fell, in 2022. But this may unwind further as BoJ curve control is eased, and JGB yields rise further.



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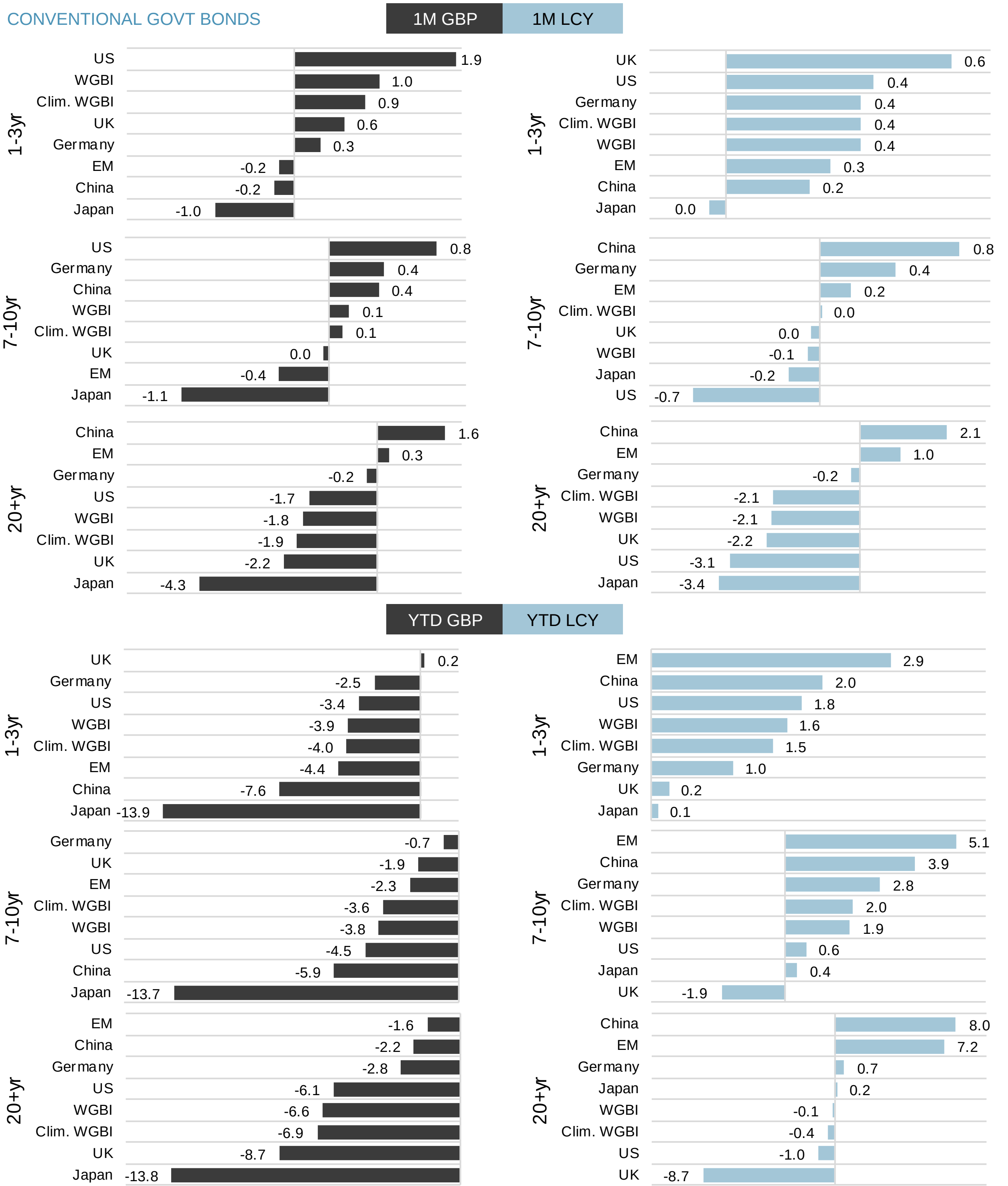
Global Bond Market Returns – 1M & YTD % (GBP, LC, TR)

Long sovereign bonds fell in August, with China and short Treasuries resisting the trend. JGBs lost 1-4% in sterling terms, as the flexing of yield curve control failed to prompt a sustained yen rally. It is similar YTD, with JGBs and long gilts losing 9-14% in sterling. Sterling strength meant no positive overseas returns YTD, with EM, Bunds and China losing least.

There were some signs of a replay of 2022's duration-driven losses for much of August, as longer dated G7 bonds lost 2-4% in sterling terms, in JGBs, Bunds, gilts, Treasuries. Short yields actually fell marginally, and short Treasuries returned 2%.

Further PBoC easing and weak growth drove positive returns of 2% in long China govt bonds. YTD, sterling's strength yields meant short gilts were the best performers in sterling terms, broadly unchanged. Yen weakness meant JGBs lost 14% in sterling terms.



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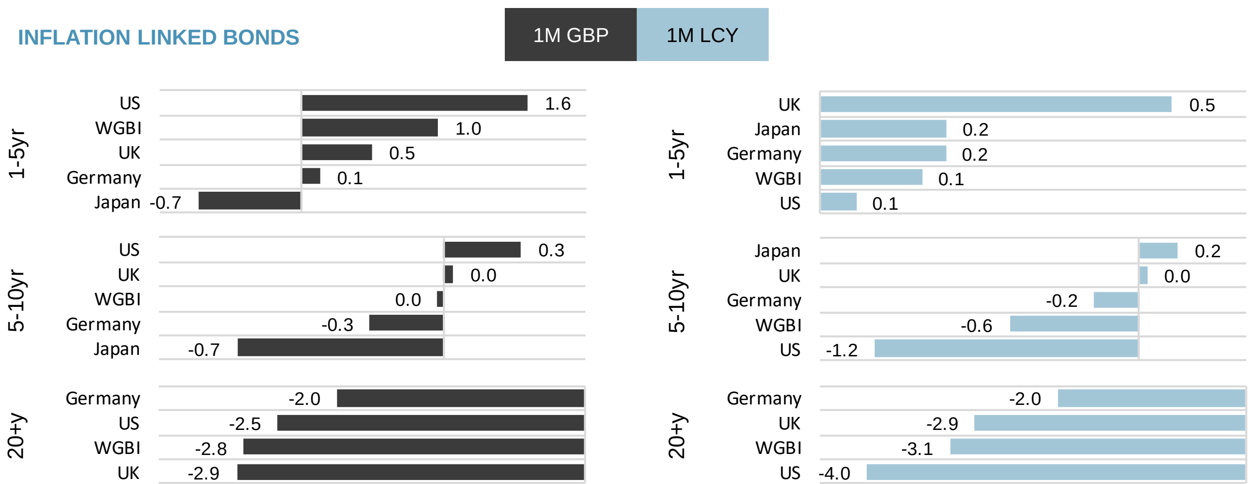
Global Inflation-Linked Bond Returns – 1M & YTD % (GBP, LC, TR)

Longer inflation-linked bonds gave up the July gains in August, with losses of 2-3% in sterling terms in long UK linkers, WILSI, Tips and Bund linkers. Credit continues to outperform YTD, led by Eurozone and US high yield, with gains of 2-3% in sterling terms. IG credit shows small losses YTD of up to 2%, but has still outperformed linkers, particularly longs.

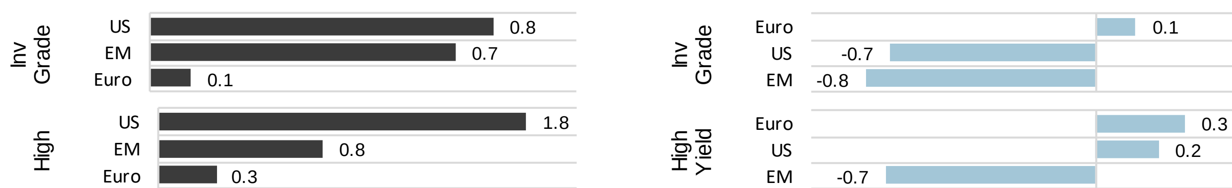
High duration and fears of more rate increases drove longer linker weakness in August, while HY credit showed modest gains of up to 2% in EM and US high yield, in sterling terms.

YTD, credit outperformed, with HY strongest, thanks to correlation with equities, shorter duration, and less sensitivity to higher govt bond yields. Long UK & JGB linkers,Tips and WILSI lost 6-11%, however, due to longer duration and sterling's strength.

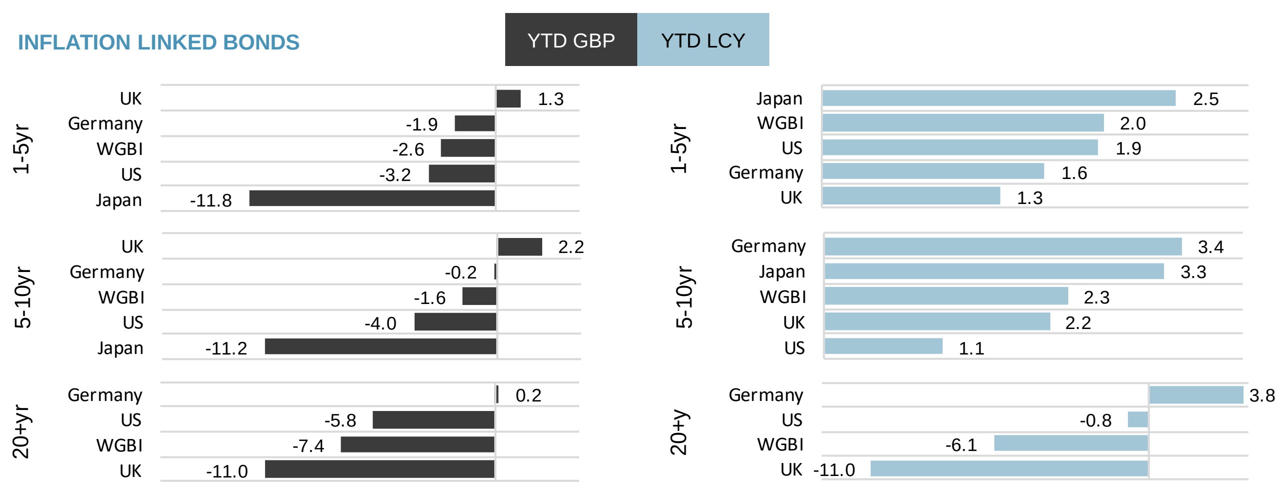
INFLATION LINKED BONDS



CORPORATE BONDS



INFLATION LINKED BONDS



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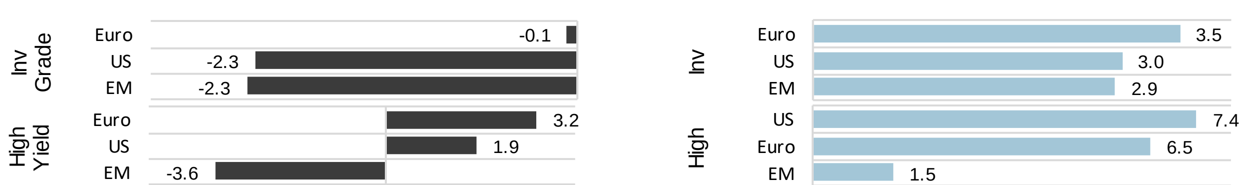

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Top and Bottom Bond Returns – 1M & 12M % (GBP, TR)

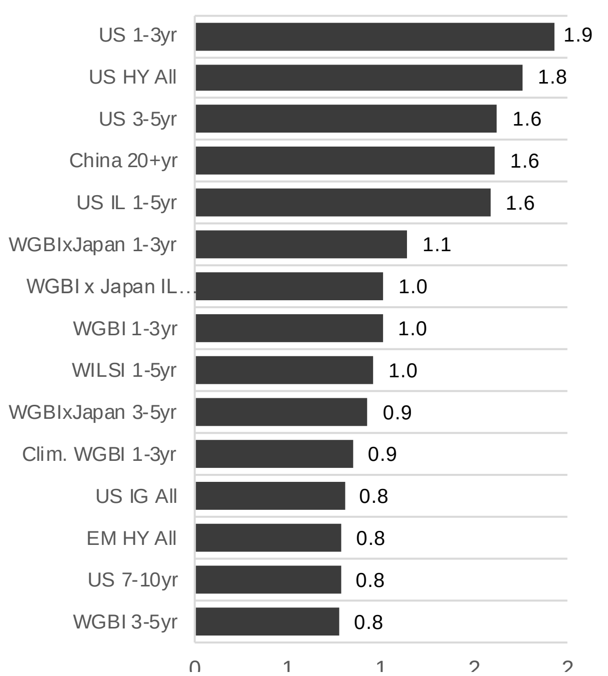
Shorter Treasuries, US Tips and high yield, and long Chinese bonds returned 2% in August, in sterling terms, while long Australasian, UK linkers, Canadian real return bonds, Swedish governments, Tips and JGB bonds lost 3-6%. 12M returns capture some of the brutal 2022 sell-off, with losses of 15-28% in long NZ, Canadian, WILSI, US Tips, UK gilts and linkers.

Very few long bonds managed positive returns in August, with losses of up to 6% in sterling terms, in long NZ govts Australasian returns were squeezed by currency weakness, on exposure to the China slowdown. JGBs were also hit by yen weakness.

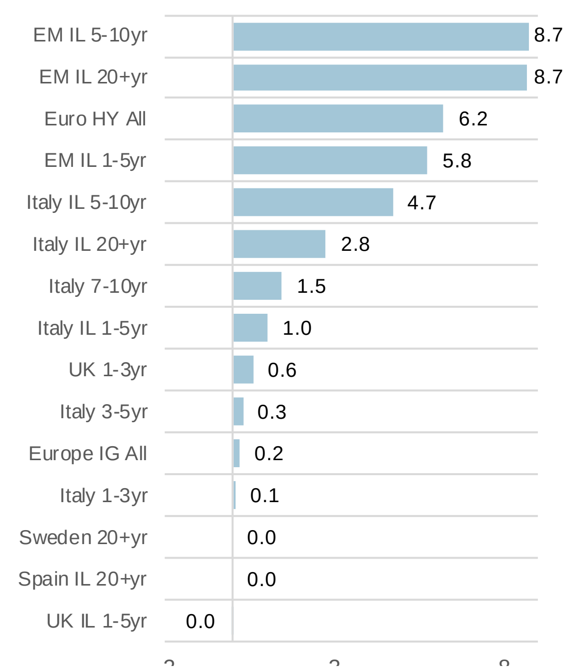
On 12M, EM inflation linked were strongest performers, helped by stronger currencies. Eurozone debt gained 1-5%, in sterling, boosted by the Euro's recovery, and improved Italian fundamentals. 14 of the bottom 15 performers on 12M are long dated bonds.

1M GBP | 12M GBP

Top 15



Top 15



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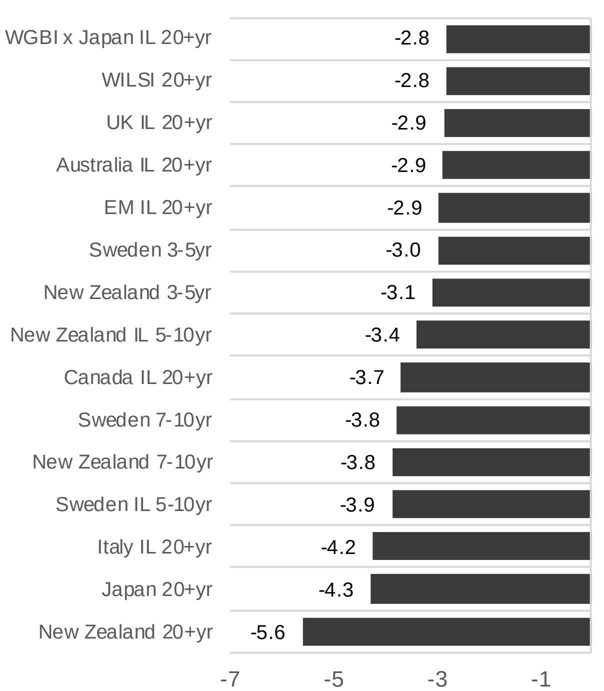

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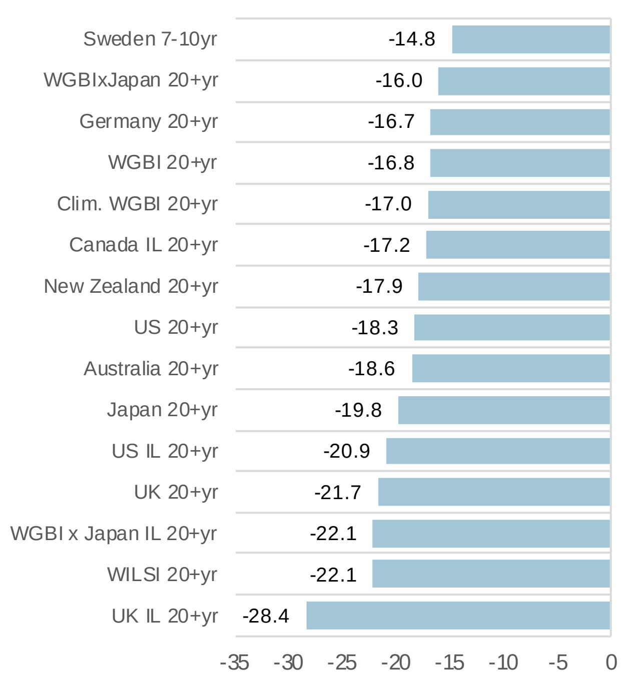

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Appendix – Global Bond Market Returns % (GBP & LC, TR) – August 31, 2023

Government Bond Returns

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

		3M		6M		YTD		12M	
		Local	GBP	Local	GBP	Local	GBP	Local	GBP
US	1-3yr	0.26	-1.94	1.78	-2.76	1.80	-3.37	1.33	-6.95
	7-10yr	-2.59	-4.73	0.40	-4.08	0.62	-4.48	-3.51	-11.40
	20+yr	-5.37	-7.44	-3.33	-7.64	-1.04	-6.06	-11.00	-18.28
	IG All	-0.02	-2.21	2.02	-2.53	2.96	-2.26	0.82	-7.41
	HY All	3.51	1.24	4.71	0.04	7.36	1.91	6.75	-1.98
UK	1-3yr	0.54	0.54	0.29	0.29	0.20	0.20	0.61	0.61
	7-10yr	-0.45	-0.45	-2.22	-2.22	-1.92	-1.92	-7.59	-7.59
	20+yr	-0.34	-0.34	-6.33	-6.33	-8.66	-8.66	-21.73	-21.73
Euro	IG All	0.77	0.34	2.38	0.10	3.51	-0.07	1.11	0.22
	HY All	2.10	1.72	2.88	0.85	6.47	3.18	7.06	6.24
Japan	1-3yr	-0.13	-6.25	-0.07	-10.67	0.07	-13.90	-0.16	-12.70
	7-10yr	-1.26	-7.32	0.51	-10.15	0.36	-13.65	-1.73	-14.07
	20+yr	-7.19	-12.88	-3.88	-14.08	0.16	-13.82	-8.29	-19.81
China	1-3yr	0.71	-4.00	1.85	-7.37	2.05	-7.62	2.38	-11.09
	7-10yr	1.60	-3.16	3.54	-5.84	3.90	-5.95	3.57	-10.07
	20+yr	4.36	-0.53	8.53	-1.30	8.04	-2.20	7.22	-6.90
EM	1-3yr	0.67	-1.54	1.00	-3.50	2.42	-2.77	3.51	-4.95
	7-10yr	0.02	-2.17	1.96	-2.59	1.78	-3.38	1.23	-7.04
	IG All	-0.12	-2.31	1.92	-2.63	2.89	-2.32	2.07	-6.27
	HY All	1.83	-0.40	0.16	-4.31	1.55	-3.60	4.50	-4.04
Germany	1-3yr	0.11	-0.31	1.41	-0.84	0.97	-2.52	-1.10	-1.97
	7-10yr	-0.78	-1.20	2.91	0.63	2.85	-0.71	-5.08	-5.92
	20+yr	-2.58	-2.99	1.48	-0.78	0.67	-2.81	-16.01	-16.75
Italy	1-3yr	0.50	0.08	1.97	-0.29	2.05	-1.48	0.98	0.09
	7-10yr	1.14	0.71	4.81	2.48	7.26	3.55	2.37	1.47
	20+yr	1.62	1.19	4.71	2.38	8.52	4.77	-3.38	-4.23
Spain	1-3yr	0.17	-0.26	1.49	-0.76	1.33	-2.17	-0.69	-1.56
	7-10yr	-0.17	-0.59	3.16	0.87	3.58	0.00	-2.99	-3.85
	20+yr	-0.28	-0.71	2.13	-0.13	2.28	-1.26	-9.55	-10.35
France	1-3yr	0.08	-0.34	1.43	-0.82	1.31	-2.20	-1.06	-1.93
	7-10yr	-0.53	-0.95	2.74	0.46	2.97	-0.59	-4.48	-5.33
	20+yr	-1.53	-1.95	1.93	-0.33	0.91	-2.58	-13.30	-14.06
Sweden	1-3yr	-0.03	-2.81	1.18	-7.93	0.82	-8.93	0.48	-10.40
	7-10yr	-2.79	-5.49	0.47	-8.58	-1.42	-10.95	-4.49	-14.83
Australia	1-3yr	0.25	-1.87	1.19	-7.15	1.36	-8.10	1.79	-11.70
	7-10yr	-2.09	-4.16	0.81	-7.49	2.93	-6.68	0.61	-12.72
	20+yr	-4.23	-6.25	-1.95	-10.03	1.88	-7.64	-6.14	-18.58
New Zealand	1-3yr	-0.20	-3.02	1.11	-7.15	1.82	-9.00	1.14	-9.80
	7-10yr	-3.41	-6.14	-0.08	-8.25	-0.22	-10.82	-2.75	-13.26
	20+yr	-8.76	-11.34	-4.30	-12.12	-5.87	-15.87	-7.90	-17.86
Canada	1-3yr	0.19	-1.54	0.93	-2.97	1.21	-3.78	1.76	-9.55
	7-10yr	-2.30	-3.99	-0.55	-4.39	-0.51	-5.41	-0.56	-11.62
	20+yr	-3.73	-5.39	-1.70	-5.50	-0.75	-5.64	-4.08	-14.74

Source: FTSE Russell and LSEG. All data as of August 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) – August 31, 2023

Inflation-Linked Bond Returns

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

		3M		6M		YTD		12M	
		Local	GBP	Local	GBP	Local	GBP	Local	GBP
US	1-5yr	0.24	-1.95	1.74	-2.80	1.95	-3.22	-0.40	-8.54
	5-10yr	-1.61	-3.76	0.71	-3.78	1.13	-3.99	-4.30	-12.12
	20+yr	-5.49	-7.56	-4.26	-8.53	-0.80	-5.83	-13.85	-20.89
UK	1-5yr	1.13	1.13	1.70	1.70	1.26	1.26	-0.04	-0.04
	5-10yr	1.50	1.50	1.22	1.22	2.15	2.15	-4.69	-4.69
	20+yr	1.38	1.38	-7.37	-7.37	-11.04	-11.04	-28.40	-28.40
Japan	1-5yr	1.08	-5.12	1.88	-8.93	2.49	-11.82	3.49	-9.51
	5-10yr	0.78	-5.41	4.03	-7.00	3.25	-11.16	2.70	-10.20
EM	1-5yr	6.32	3.54	5.44	0.41	10.43	5.73	15.45	5.76
	5-10yr	4.13	2.66	4.68	1.38	8.09	5.74	15.45	8.74
	20+yr	1.70	3.01	9.67	10.39	8.70	10.67	10.43	8.71
Germany	1-5yr	0.31	-0.11	1.34	-0.91	1.57	-1.95	-2.19	-3.05
	5-10yr	-0.35	-0.77	1.93	-0.33	3.42	-0.16	-2.90	-3.76
	20+yr	-4.40	-4.81	0.66	-1.57	3.80	0.21	-12.15	-12.93
Italy	1-5yr	0.95	0.52	2.17	-0.10	2.88	-0.68	1.95	1.05
	5-10yr	1.74	1.31	4.18	1.87	7.77	4.05	5.66	4.72
	20+yr	-0.32	-0.74	4.32	2.00	12.73	8.83	3.68	2.76
Spain	1-5yr	0.27	-0.16	1.31	-0.94	1.94	-1.59	-0.43	-1.31
	5-10yr	0.39	-0.03	2.29	0.02	3.80	0.20	-0.17	-1.05
France	1-5yr	0.18	-0.24	1.30	-0.95	1.67	-1.85	-1.42	-2.29
	5-10yr	-0.18	-0.60	2.11	-0.15	3.65	0.06	-1.54	-2.41
	20+yr	-3.31	-3.72	2.12	-0.14	3.77	0.18	-8.07	-8.88
Sweden	1-5yr	0.35	-2.44	0.95	-8.14	1.60	-8.22	2.25	-8.82
	5-10yr	-1.67	-4.41	0.22	-8.81	0.35	-9.35	-3.84	-14.26
Australia	1-5yr	0.29	-1.83	2.67	-5.79	4.34	-5.41	5.41	-8.56
	5-10yr	-0.89	-2.99	2.97	-5.52	6.01	-3.89	5.32	-8.63
	20+yr	-3.64	-5.68	2.92	-5.56	7.11	-2.90	2.32	-11.24
New Zealand	5-10yr	-2.67	-5.42	1.09	-7.18	2.67	-8.24	4.09	-7.17
Canada	20+yr	-6.77	-8.38	-6.44	-10.05	-10.05	-14.48	-6.81	-17.17

Appendix – Historical Bond Yields % as of August 31, 2023

Global Bond Yields

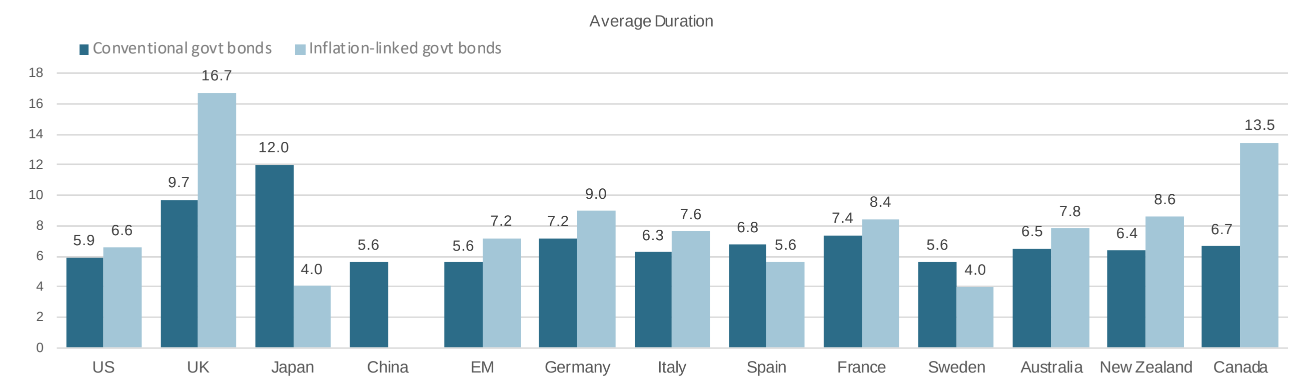
Green highlight indicates highest 15%, red indicates lowest 15%

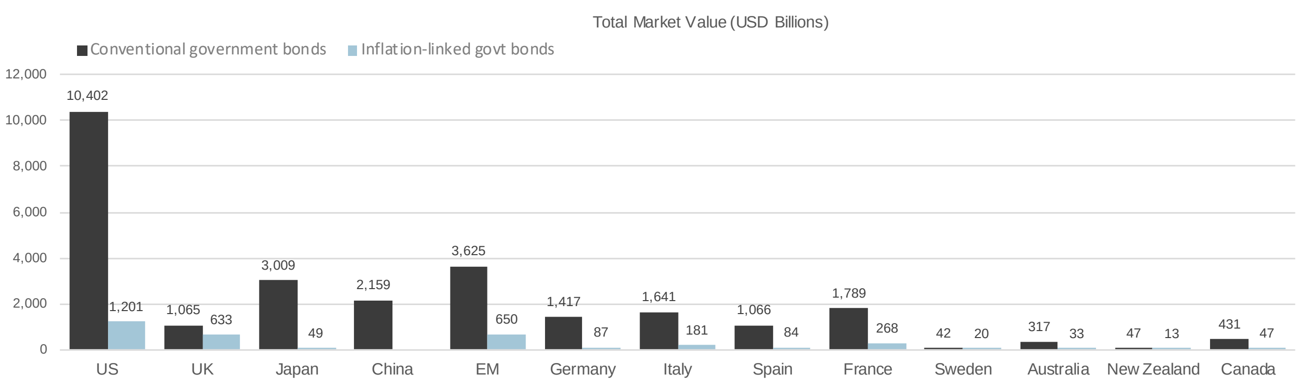
		Conventional government bonds				Inflation-linked bonds			Inv Grade	High Yld
		1-3YR	3-5YR	7-10YR	20+YR	1-5YR	5-10YR	20+YR	All Mat	All Mat
US	Current	4.99	4.39	4.12	4.32	2.50	1.94	2.01	5.65	8.44
	3M Ago	4.61	3.92	3.65	3.94	2.08	1.52	1.68	5.43	8.86
	6M Ago	4.90	4.34	3.93	4.01	1.82	1.57	1.65	5.55	8.62
	12M Ago	3.49	3.44	3.19	3.46	0.87	0.75	1.14	4.86	8.37
UK	Current	4.91	4.63	4.31	4.53	1.11	0.67	1.12		
	3M Ago	4.55	4.33	4.10	4.45	1.18	0.54	1.06		
	6M Ago	3.95	3.79	3.72	4.07	0.45	0.18	0.67		
	12M Ago	3.04	2.82	2.77	3.06	-3.47	-1.62	-0.45		
Japan	Current	-0.02	0.14	0.53	1.55	-1.82	-0.76			
	3M Ago	-0.08	0.01	0.33	1.22	-1.51	-0.77			
	6M Ago	-0.04	0.11	0.53	1.35	-1.25	-0.36			
	12M Ago	-0.10	-0.04	0.20	1.10	-1.23	-0.83			
China	Current	2.06	2.28	2.59	2.93					
	3M Ago	2.13	2.36	2.70	3.14					
	6M Ago	2.38	2.62	2.86	3.32					
	12M Ago	1.96	2.30	2.68	3.16					
EM	Current	8.60	6.87	6.67		2.84	4.28	5.01	6.14	11.41
	3M Ago	8.46	6.96	6.55		4.34	4.24	5.00	5.78	12.12
	6M Ago	7.92	7.12	6.70		1.46	3.33	5.35	5.95	10.85
	12M Ago	7.65	6.83	6.22		2.45	3.50	5.09	5.25	11.65
Germany	Current	3.03	2.53	2.38	2.55	0.64	0.13	0.11		
	3M Ago	2.71	2.30	2.20	2.40	0.37	-0.04	-0.13		
	6M Ago	3.09	2.78	2.59	2.57	0.22	0.08	0.03		
	12M Ago	0.97	1.25	1.41	1.62	-1.62	-0.97	-0.68		
Italy	Current	3.56	3.53	3.87	4.41	1.37	1.72	1.86		
	3M Ago	3.35	3.42	3.89	4.43	1.11	1.62	1.80		
	6M Ago	3.65	3.81	4.18	4.55	0.84	1.69	1.90		
	12M Ago	2.11	2.78	3.53	3.93	-1.97	1.08	1.73		
France	Current	3.09	2.85	2.87	3.36	0.48	0.37	0.71		
	3M Ago	2.83	2.63	2.68	3.24	0.22	0.20	0.53		
	6M Ago	3.18	3.03	3.01	3.37	-0.05	0.24	0.69		
	12M Ago	1.21	1.53	1.88	2.52	-1.84	-0.60	0.15		
Sweden	Current	3.43	3.00	2.75		1.33	1.14			
	3M Ago	2.97	2.62	2.31		0.74	0.55			
	6M Ago	3.18	2.96	2.65		0.64	0.72			
	12M Ago	2.24	2.22	1.96		-1.11	-0.90			
Australia	Current	3.85	3.75	3.99	4.42	0.97	1.43	1.84		
	3M Ago	3.51	3.38	3.58	4.12	0.42	1.03	1.59		
	6M Ago	3.66	3.65	3.83	4.19	0.50	1.26	1.78		
	12M Ago	3.11	3.30	3.56	3.84	-0.19	0.81	1.56		
New Zealand	Current	5.30	4.96	4.89	5.07	2.15	2.58			
	3M Ago	5.08	4.35	4.28	4.46	1.23	1.85			
	6M Ago	5.06	4.68	4.57	4.67	1.40	2.07			
	12M Ago	3.85	3.87	3.97	4.33	0.72	1.84			
Canada	Current	4.72	4.04	3.62	3.41	2.09	1.87	1.82		
	3M Ago	4.29	3.56	3.22	3.18	1.60	1.38	1.41		
	6M Ago	4.27	3.62	3.34	3.24	1.35	1.28	1.35		
	12M Ago	3.67	3.40	3.14	3.05	1.31	1.11	1.29		

Appendix – Duration and Market Value (USD, Bn) as of August 31, 2023

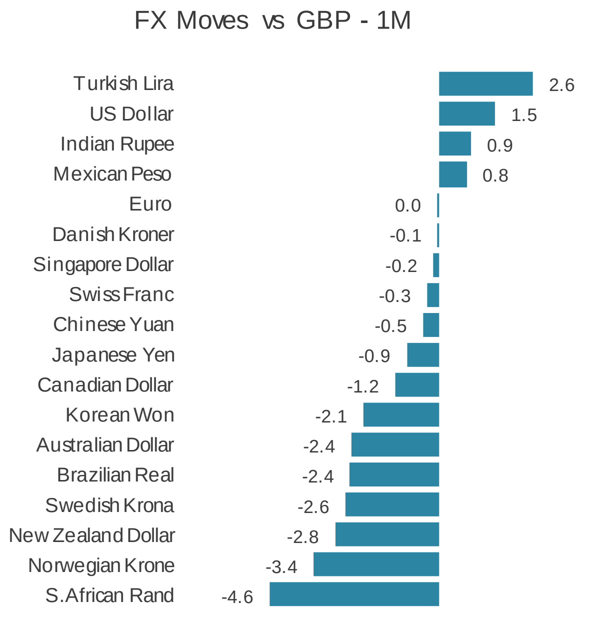
	Conventional government bonds								Inflation-linked government bonds					
	Duration				Market Value				Duration			Market Value		
	3-5YR	7-10YR	20+YR	Overall	3-5YR	7-10YR	20+YR	Total	5-10YR	20+YR	Overall	5-10YR	20+YR	Total
US	3.7	7.4	17.1	**5.9**	2,326.2	1,094.2	1,242.6	**10,402.0**	7.1	21.4	**6.6**	382.6	116.3	**1,201.4**
UK	3.5	7.3	18.4	**9.7**	132.1	161.5	295.6	**1,065.1**	6.5	27.6	**16.7**	130.3	249.1	**632.8**
Japan	3.9	8.1	23.8	**12.0**	353.3	356.3	646.4	**3,009.1**	7.0		**4.0**	16.8		**48.5**
China	3.7	7.5	17.7	**5.6**	479.2	337.8	256.1	**2,158.8**						
EM	3.5	6.9	15.9	**5.6**	768.0	653.7	352.9	**3,624.9**	5.5	13.8	**7.2**	139.0	166.9	**650.0**
Germany	3.7	7.6	20.7	**7.2**	310.8	235.8	158.2	**1,416.7**	7.2	21.8	**9.0**	43.2	18.7	**87.4**
Italy	3.7	7.2	16.1	**6.3**	283.5	258.5	153.7	**1,641.2**	7.9	26.3	**7.6**	58.7	5.5	**181.3**
Spain	3.8	7.6	17.4	**6.8**	201.0	184.9	98.3	**1,065.8**	6.7		**5.6**	22.6		**83.6**
France	3.7	7.6	20.1	**7.4**	319.8	308.6	209.8	**1,789.5**	6.7	24.4	**8.4**	103.8	21.1	**268.2**
Sweden	3.7	7.6		**5.6**	13.2	8.4		**41.6**	5.7		**4.0**	9.3		**20.1**
Australia	3.5	7.7	17.4	**6.5**	50.5	86.0	14.8	**317.1**	7.2	22.4	**7.8**	9.5	2.6	**32.6**
New Zealand	3.8	7.6	16.7	**6.4**	9.4	13.2	2.3	**47.4**	6.2		**8.6**	3.0		**13.2**
Canada	3.6	7.6	19.7	**6.7**	55.7	110.1	60.8	**431.5**	6.9	20.7	**13.5**	8.0	19.0	**47.3**

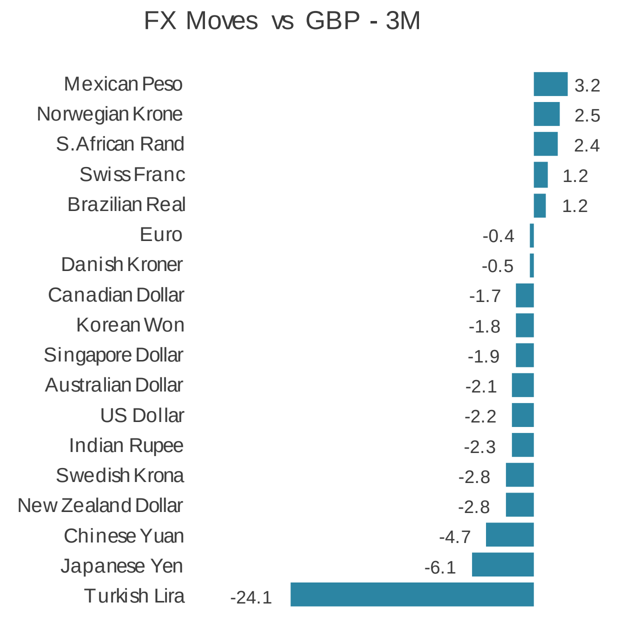
	Investment grade bonds										High Yield	
	Duration					Market Value					Duration	MktVal
	AAA	AA	A	BBB	Overall	AAA	AA	A	BBB	Overall		
US	10.7	8.5	7.2	6.5	7.0	72.1	448.8	2610.9	3256.9	6388.7	4.0	1031.8
Europe	6.2	4.9	4.6	4.3	4.5	9.6	184.5	1188.1	1427.5	2809.7		
EM		5.7	4.8	5.1	5.0		45.0	220.0	320.1	585.1	3.4	186.0

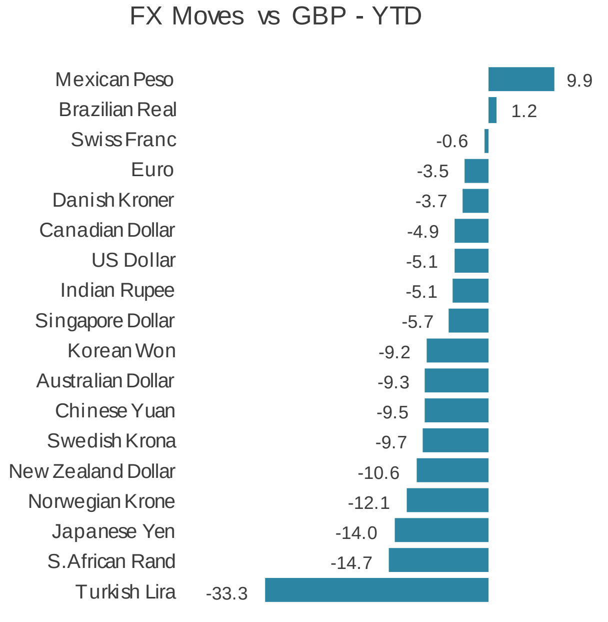


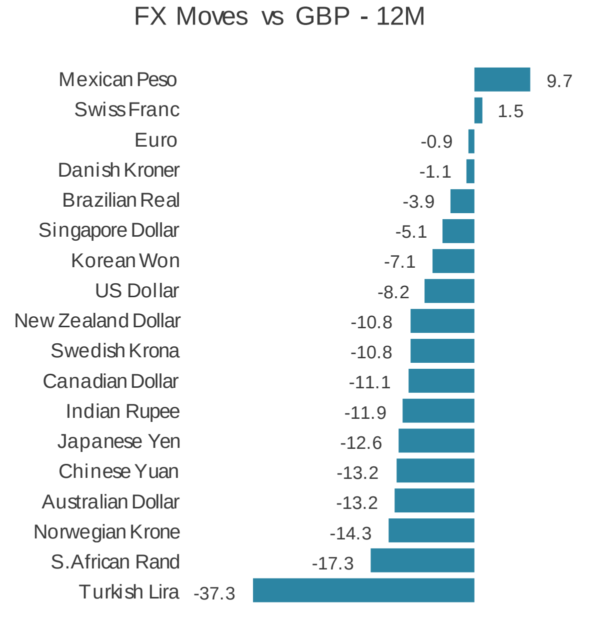


Appendix – Foreign Exchange Returns % as of August 31, 2023









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