

Fixed Income: Semi-Annual Review

Blog

July 2019

Fixed Income Indexing, Solactive AG



The Bull Market Continues – Decoupling of Japan

After a turbulent end of 2018 and volatile first weeks of 2019, global fixed income markets have found their footing again and posted positive returns for the first six months of 2019. All of Solactive's major fixed income benchmarks have been in positive territory achieving year to date returns between 2.73% (Japanese Government Bonds) and 10.77% (USD HY Corporate Bonds).

On the government bond side, the recent rally in Eurozone government debt, mainly caused by comments from the ECB about potentially further loosening monetary policy, made our Solactive Eurozone Government Bond Index the best performing index among its peers, returning 6% this year. While the yield on our US Treasury index dropped more than our Solactive's Eurozone Government Bond Index yield, the higher duration of the latter is the reason for the Eurozone's outperformance. Interestingly, Japan has recently decoupled from the other government bond indices. As you can see below, the other government bond indices moved in lockstep over the past six months.

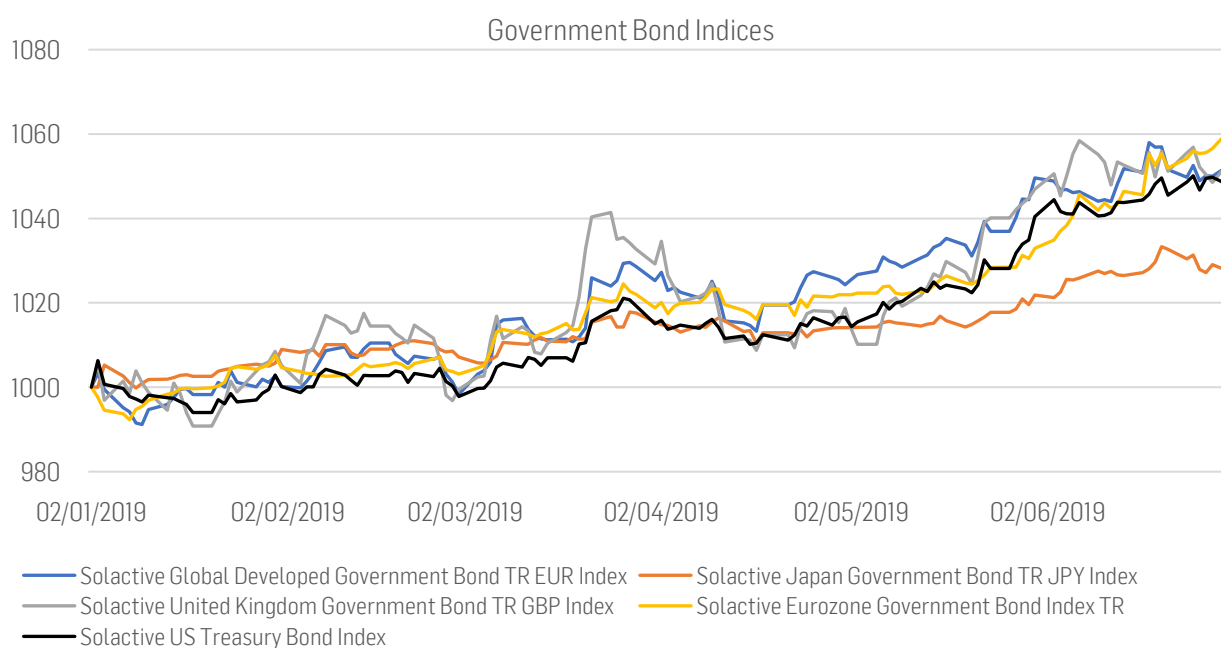


Figure 1: Performance of Government Bond Indices 01.01.2019 to 30.06.2019, all indices are in local currency, except Solactive Global Developed Government Bond TR EUR Index, Source: Solactive AG

On the corporate debt side, the undisputed champion remains our Solactive USD High Yield Corporate Index, which has returned 10.77% so far, and thus has been the best performing corporate bond index for most 2019. This shouldn't come as a surprise as the current situation for USD corporate debt is quite favorable. During 2019 we have seen a relatively high yield level in the USD space, dropping US Treasury yields and narrowing spreads for USD corporates relative to the US Treasury Bonds. In the USD high yield space, the supply and demand mechanics supported index levels as well, with USD high yield net issuance being negative for the first two month of 2019.

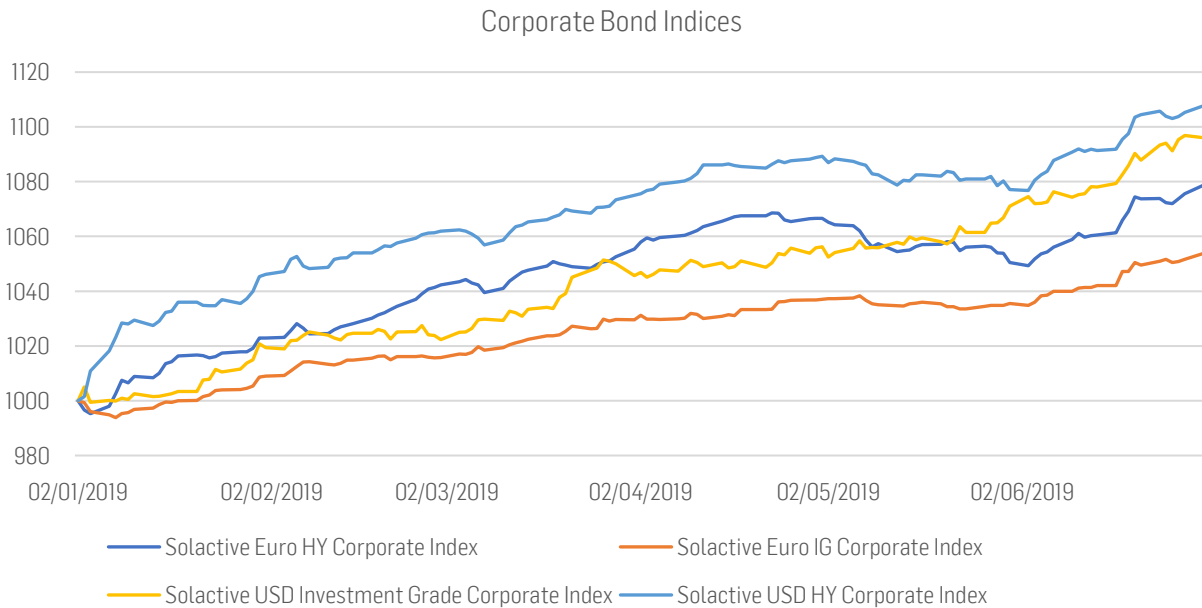


Figure 2: Performance Corporate Bond Indices 01.01.2019 to 30.06.2019, Source: Solactive AG

Lower Yields Everywhere – Japan Even Negative

Yields have dropped for all major sovereign bond indices in the first half of 2019. The yield of the Solactive Japan Government Bond TR JPY Index (Duration of 11.1) has recently turned negative. The US Treasury Index yield dropped by approx. 60 bps from 2.6% to 1.96%. As discussed before, the monetary policy environment in the US was very supportive for US Corporates.

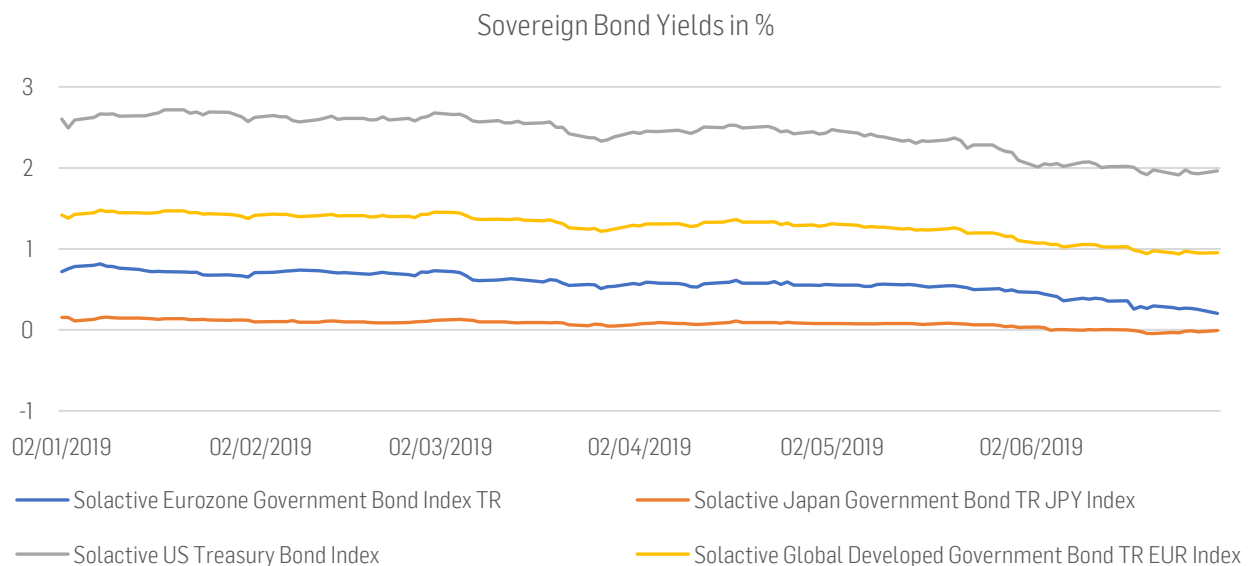


Figure 3: Sovereign Bond Yields in %, Source: Solactive AG



Lower Yields 2.0 – Spread Compression

Looking at corporate bond yields, the picture is quite similar: The yield level in the USD is substantially higher than in the EUR area. Interesting are the recent movements in the yield differentials: While European corporates spreads widened a bit in the last 30 days, their USD counterparts narrowed further. The Euro Corporate IG – Euro Sovereign yield differential is now at 52 bps, while the USD Corporate IG – US Treasury yield differential is currently at 128 bps.

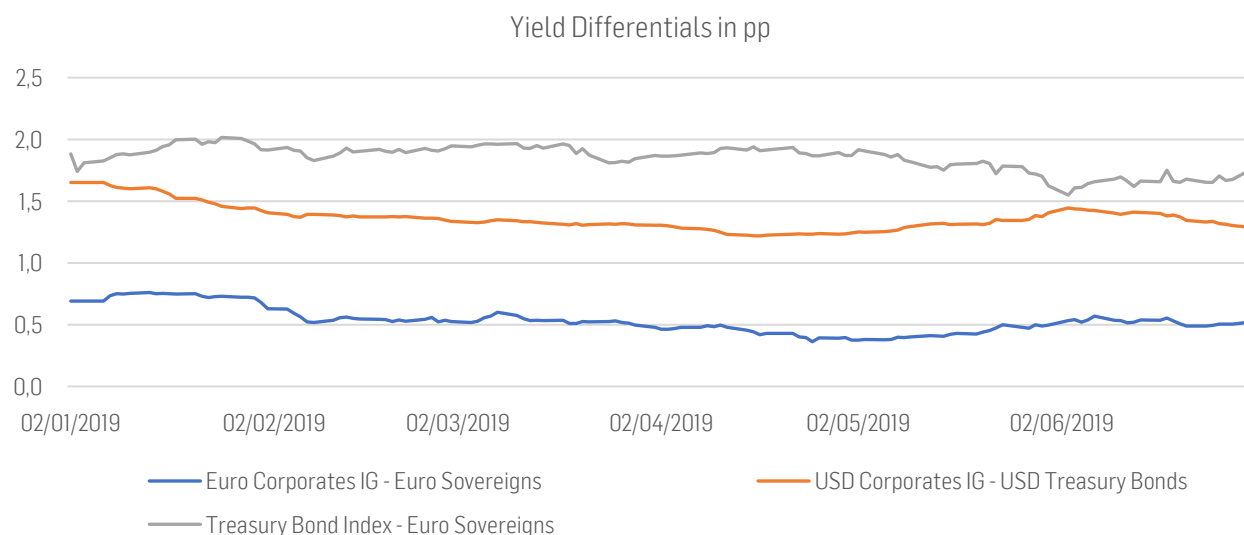


Figure 4: Yield Differentials in pp, Source: Solactive AG

On a relative basis, European corporate debt bonds are more expensive than their USD denominated counterparts. Within the corporate bond market, Euro high yield bonds carry a premium of 2.88 pp over Euro IG bonds while USD High yield index only offers a premium of 2.70 pp against the USD Investment Grade Index.

Solid Investment Grade Supply – High Yield Shaky

The following graphs show the net new issuance in our corporate bond benchmarks as well as the aggregated market value. Generally, net issuance in the investment grade space has been strong. Our Euro Corporate IG and USD Investment Grade Corporate indices have been growing constantly in terms of the number of bonds as well as measuring the aggregate market value of all bonds.

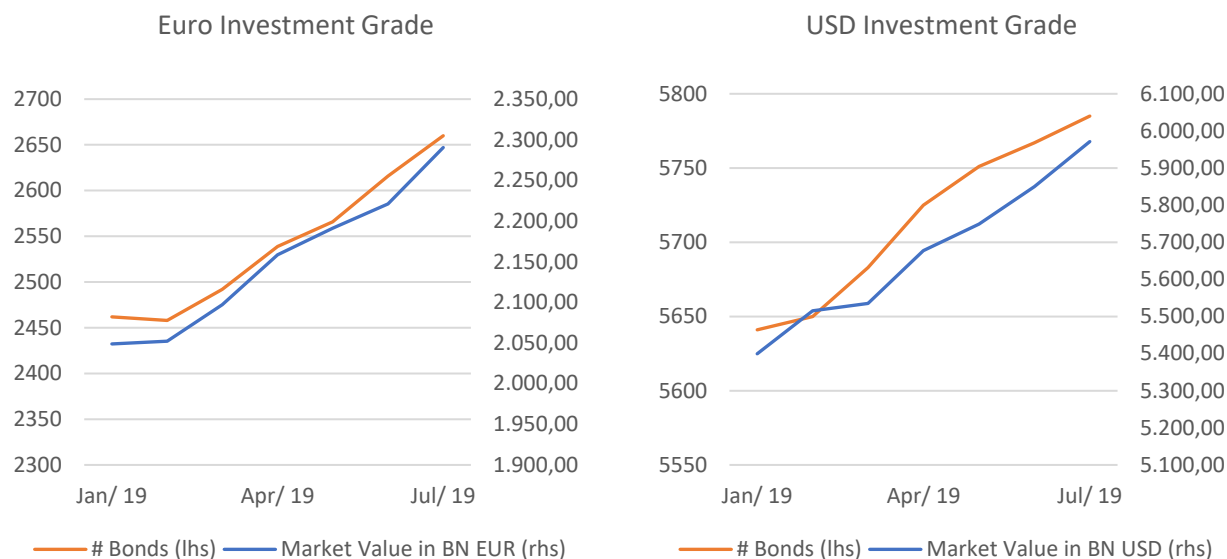


Figure 5: Investment Grade Bond Index Sizes, Source: Solactive AG

In the high yield markets, the picture differs. In general, net new issuance in the yield high yield markets has been a bit shaky in the last 6 months. Especially in the USD high yield space net new issuance has been negative year to date, with the index size (#number of bonds) steadily declining since April. European issuers seem to have taken advantage of the recent drop in yields as the index size has increased steadily since the beginning of May.

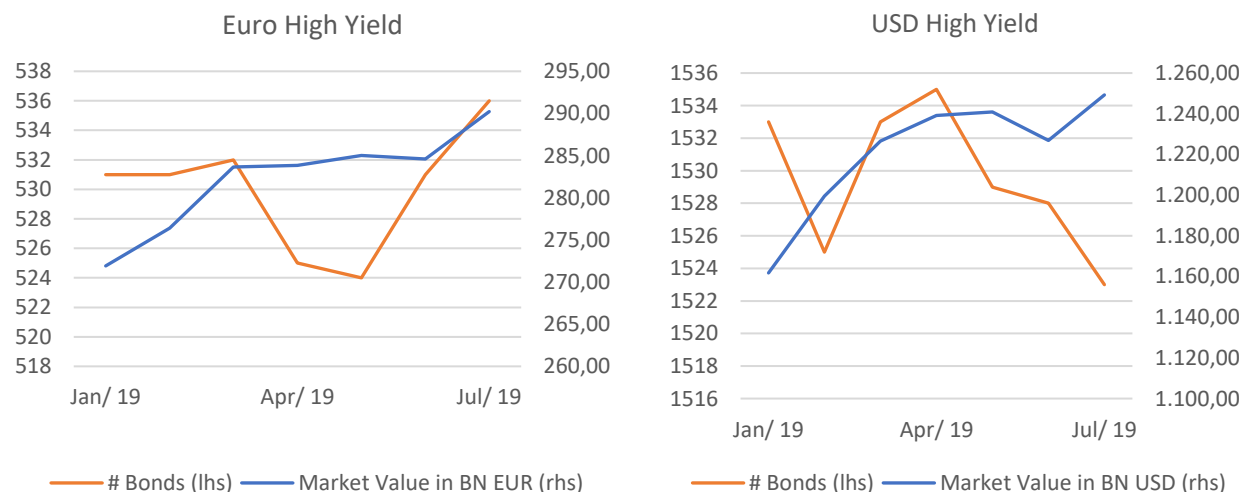


Figure 6: High Yield Bond Index Sizes, Source: Solactive AG

Sebastian Alber

Fixed Income Indexing Product Development
Solactive AG

Solactive AG does not offer any explicit or implicit guarantee or assurance either with regard to the results of using an Index and/or the concepts presented in this paper or in any other respect. There is no obligation for Solactive AG - irrespective of possible obligations to issuers - to advise third parties, including investors and/or financial intermediaries, of any errors in an Index. This publication by Solactive AG is no recommendation for capital investment and does not contain any assurance or opinion of Solactive AG regarding a possible investment in a financial instrument based on any Index or the Index concept contained herein. The information in this document does not constitute tax, legal or investment advice and is not intended as a recommendation for buying or selling securities. The information and opinions contained in this document have been obtained from public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete and it should not be relied upon as such. Solactive AG and all other companies mentioned in this document will not be responsible for the consequences of reliance upon any opinion or statement contained herein or for any omission.

Contact

Solactive AG
German Index Engineering
Platz der Einheit 1
60325 Frankfurt am Main
Germany

Tel.: +49 (0) 69 719 160 00
Fax: +49 (0) 69 719 160 25
Email: info@solactive.com
Website: www.solactive.com

© Solactive AG



Timo Pfeiffer
Head of Research & Business Development
Tel.: +49 (0) 69 719 160 320
Email: timo.pfeiffer@solactive.com

Phil Wiedbrauck
Public Relations & Social Media
Tel.: +49 (0) 69 719 160 311
Email: phil.wiedbrauck@solactive.com

Fabian Colin
Head of Sales
Tel.: +49 (0) 69 719 160 220
Email: fabian.colin@solactive.com