

Market Maps

Fixed Income Insight Report



January 2022 (US Edition)

Chinese sovereigns and inflation-linked bonds outperformed in 2021

G7 curves flattened in Q4. Short-dated sold off, reflecting increased conviction of faster tightening, while long-dated bonds rallied, despite record inflation. This helped inflation-linked bonds become one of the best performing fixed-income assets in Q4. Risk assets, such as HY credit, have also outperformed. European govt bonds lagged peers.

Performance – Chinese govt bonds outperformed in Q4 and 2021; US high-yield credit & inflation bonds rallied in Q4

Global government bond yield curves mostly bear flattened in Q4, with long-dated bonds outperforming their shorter-dated equivalents. US high-yield credit rallied in Q4, while long Chinese conventional bonds outperformed in 2021. (pages 2-4)

Growth and inflation expectations – Consensus expects inflation to stay above target in 2022

Inflation expectations ratcheted up sharply in 2021 in an expansionary monetary environment and are expected to remain above the 2% target in most advanced economies in 2022. (page 5)

Climate-WGBI and WGBI indexes – Adv Climate WGBI vs WGBI differences skewed by UK and US weightings

The disparity between 7-10yr/20yr+ Adv Climate WGBI and WGBI yields reflect differences in US & UK exposures. (page 6)

Yields, curves and spreads – Real yields remained negative in 2021

Negative real yields persisted amid strong demand for inflation protection and tolerance for above-target inflation. (pages 7-8)

Appendix

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

Chart 1: Rising energy prices have contributed to 2021 inflation surge, but as Covid restrictions are lifted, backlogs should start to clear.

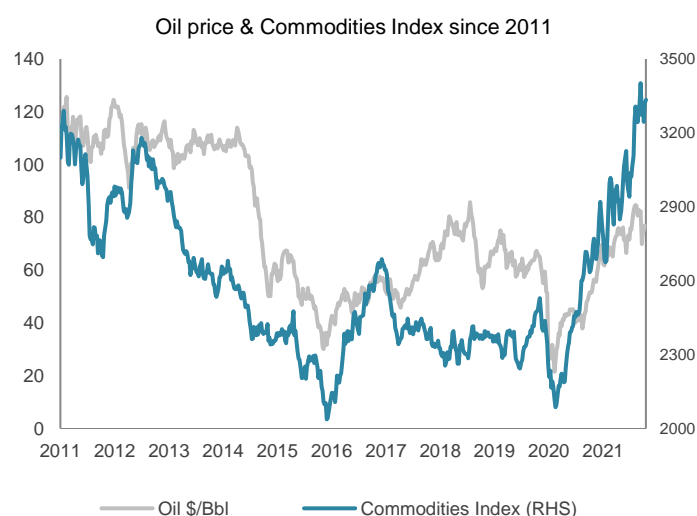
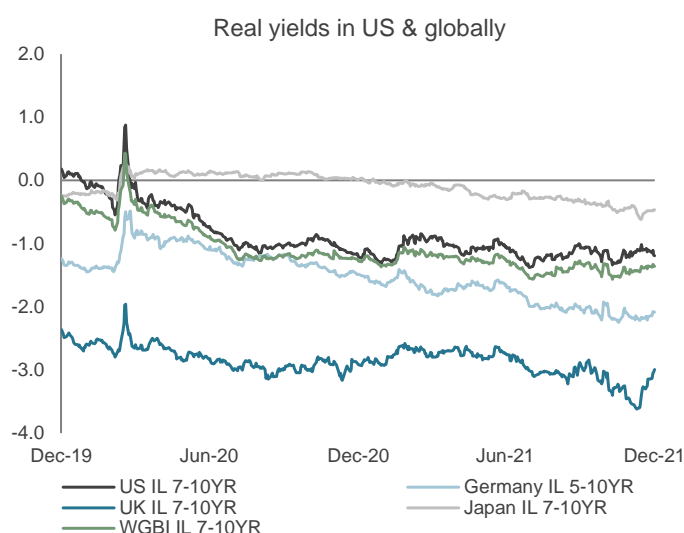


Chart 2: Real yields have stayed firmly negative in 2021, despite major countries signaling faster tightening to counter inflation.



For professional investors only

Source: FTSE Russell. All data as of December 31, 2021. 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 Indexes. See Appendix for list of indexes used for each market.

Global Bond Market Returns – 3M & YTD % (USD, LCY) as of December 31, 2021

Bond investor optimism faded in Q4 as the timetable for QE taper and rate hikes was perceived to have advanced. Omicron fears subsided somewhat, inflation data remained near record highs and improvement in employment, and other economic data, lowered the barrier for central bank action. Global bond yield curves mostly bear flattened, with long-dated bonds outperforming their shorter equivalents. Chinese bonds remained top performers in Q4 and 2021.

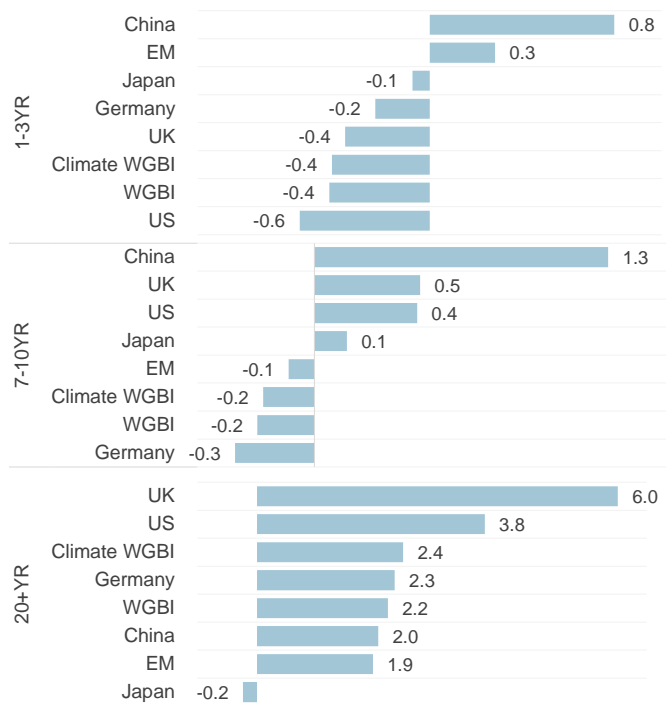
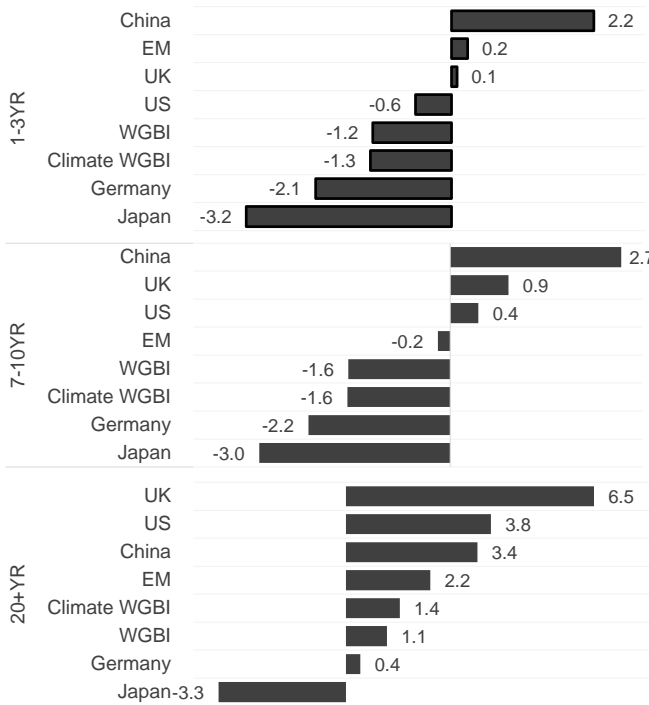
Chinese government bonds outperformed other regions in both Q4 and 2021, benefiting from being at a different economic cycle than other regions, a flight to quality and potentially some effects of WGBI inclusion.

Except in Japan, long-dated G7 conventional bonds outperformed in Q4, with gains of up to 7% in US dollar terms. 2021 G7 performance remained negative across all maturities, with Bunds registering losses of up to 13%.

CONVENTIONAL GOVT BONDS

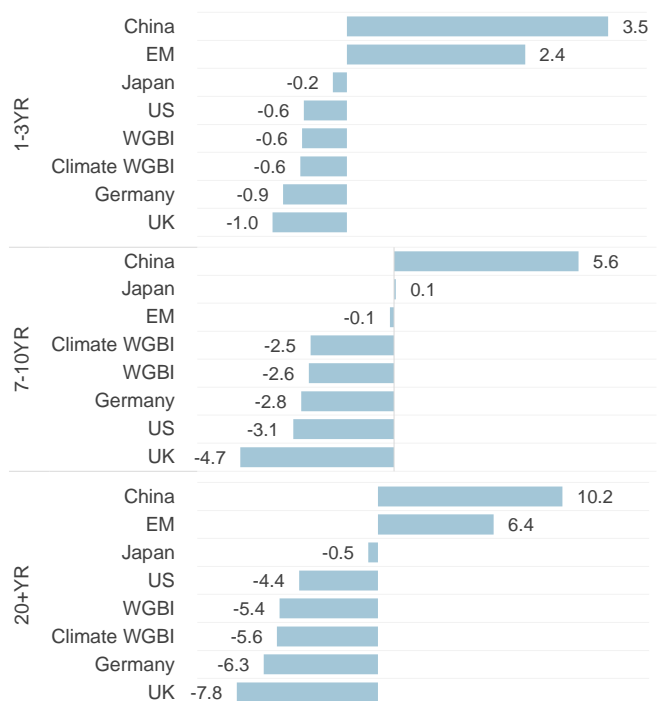
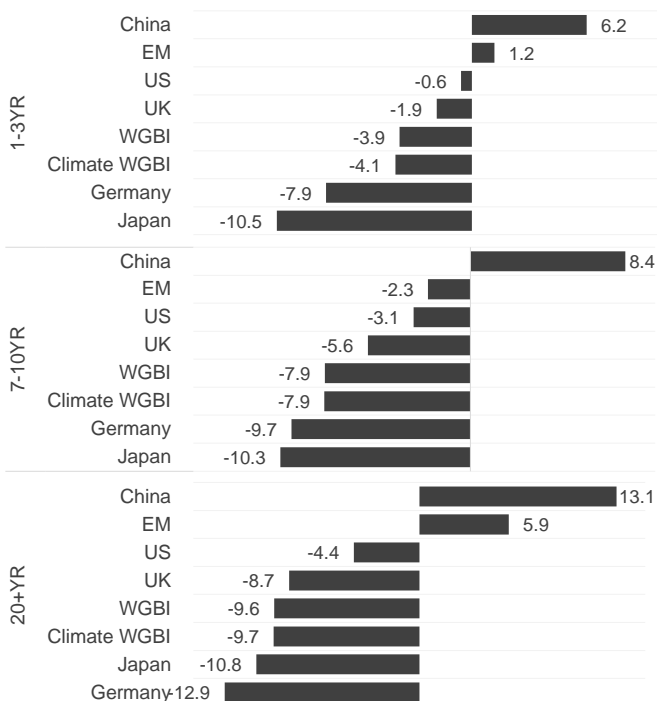
3M USD

3M LCY



YTD USD

YTD LCY



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