

GLOBAL FIXED INCOME: LET'S GO TO THE VIDEOTAPE

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As we celebrate the unofficial start of summer, fixed income investors may be wondering if there is anything to celebrate yet or whether we should wait on the fireworks. Certainly, fixed income investors were given a “head fake” to start 2016, as the [risk-off](#) trade pivoted to more of a risk-on characteristic when winter was transitioning to spring. Since then, headline watching has seemingly become a fixed income pastime, with the Fed taking on a dominant role of late. It should be noted that in June, the [Federal Reserve \(Fed\)](#) will not be alone on this front, as both the European Central Bank (June 2) and the Bank of Japan (June 16) also having policy meetings. So, let's go to the videotape and see how the global fixed income markets have fared. The interesting twist for the year is that U.S. [high yield \(HY\)](#) and emerging market (EM) local debt have put in the best performances thus far. To provide perspective: as of this writing, HY, as measured by the [Barclays U.S. Corporate High Yield Total Return Index Value Unhedged](#), has produced a positive reading of +7.47%. On the EM side, the total return, as measured by the [JP Morgan Government Bond Index – Emerging Markets \(GBI-EM\) Global Diversified](#), has come in at +7.70%. This is not the picture investors would have witnessed during the first six weeks of the year. Indeed, on February 11 (2016's peak risk-off day thus far), HY was posting a negative return of -5.16%, while EM local debt was slightly in the plus

| Total Returns | YTD | MTD | 2015 |
|-----------------------------------|-------|--------|---------|
| 2-Yr Treasury | 0.60% | -0.22% | 0.44% |
| 5-Yr Treasury | 2.27% | -0.49% | 1.35% |
| 10-Yr Treasury | 4.17% | -0.41% | 0.90% |
| Barclays Aggregate | 3.20% | -0.22% | 0.55% |
| | | | |
| | | | |
| Investment Grade | 4.81% | -0.56% | -0.68% |
| High Yield | 7.47% | 0.07% | -4.47% |
| | | | |
| Emerging Market US\$ Total Return | 6.63% | -0.64% | 1.05% |
| EM Local Debt | 7.70% | -5.42% | -14.92% |
| German 7-10 | 3.86% | 0.84% | 0.74% |
| Japanese 7-10 | 2.88% | 0.23% | 1.30% |

Source: Bloomberg, as of 5/24/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

2-Yr Treasury, 5-Year Treasury, and 10-Year Treasury represented by Citi's Treasury Benchmark On-the-Run Indexes. Barclays Aggregate represented by the Barclays U.S. Aggregate Index. Investment grade represented by the Barclays U.S. Corporate Index. High Yield represented by the Barclays U.S. Corporate High Yield Index. Emerging Markets U.S.\$ Total Return represented by the JP Morgan Emerging Markets Bond Index Global (EMBI Global). EM Local Debt represented by the JP Morgan GBI-EM Global Diversified Index. German 7-10 represented by the BofA Merrill Lynch 7-10 Year German Government Index. Japanese 7-10 represented by the BofA Merrill Lynch 7-10 Year Japan Government Index.

column, at +1.2%.

For definitions of indexes in the chart, visit our [glossary](#). Within the [investment-grade \(IG\)](#) corporate market, a similar pattern has emerged. According to the [Barclays U.S. Aggregate Corporate Total Return Value Unhedged Index](#), the IG sector was producing a positive performance of +4.81% heading into the Memorial Day weekend, a rather noticeable improvement from the +0.74% reading in early February. From the interest-

sensitive side, U.S. [Treasury](#) market (UST) performance numbers improved more and more, the further out on the yield curve one goes. To illustrate, the UST 2-Year return came in at a rather modest +0.60%, as compared to a more solid showing of +4.17% for the [UST 10-Year](#) (utilizing the Citi 2-Year and 10-Year Treasury Benchmark On-the-Run Index). **Conclusion** Future central bank policy decisions could certainly play an important role for how “the videotape” looks when the calendar reaches the autumnal equinox and beyond. In fact, investors may have already begun to witness some markets pricing in the Fed potentially raising rates at either its June or July policy meetings. The EM local debt space has witnessed a pronounced shortfall, falling -5.42% on a month-to-date basis as of May 24. This decline is mostly a reflection of a stronger dollar, as the EM U.S. dollar (USD) market lost a far smaller -0.64% (JPMorgan Emerging Market Bond Index – Global). It seems to be no coincidence that the recent USD rebound coincided with the recent [FOMC](#) minutes and additional Fed rhetoric, which placed a possible June rate hike back on the table.

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DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

High Yield: Sometimes referred to as “junk bonds,” these securities have a higher risk of default than investment-grade securities.

Barclays U.S. Corporate High Yield Index: Covers the universe of fixed-rate, non-investment-grade corporate debt.

Investment grade: An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

Bloomberg Barclays U.S. Aggregate Index OAS: the amount of compensation in excess of Treasuries that investors demand for lending to borrowers in the Bloomberg Barclays U.S. Aggregate Index.

Treasury: Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

10-Year Treasury: a debt obligation of the U.S. government with an original maturity of ten years.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.