

BCX Research

Shape Your Conviction™

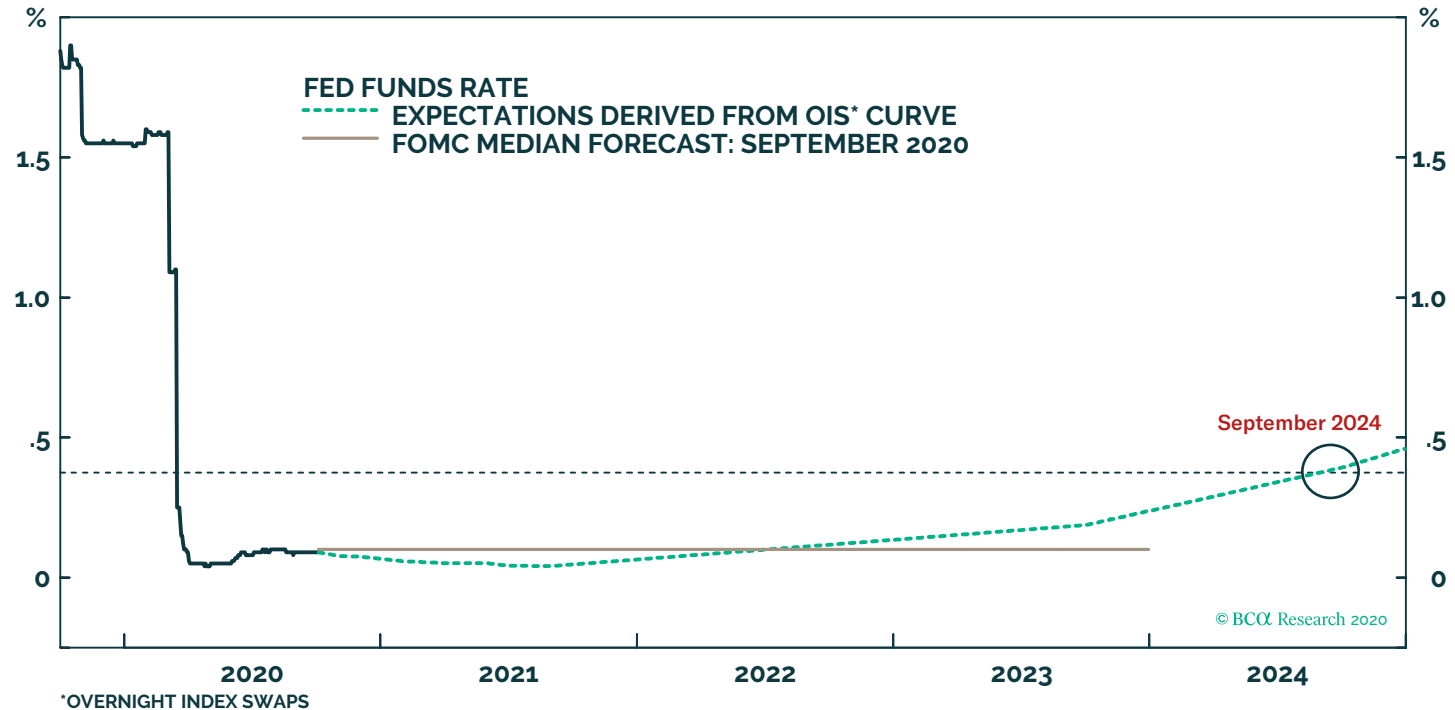
Investment
Conference 2020

Fixed Income Markets: What Should Investors Do?

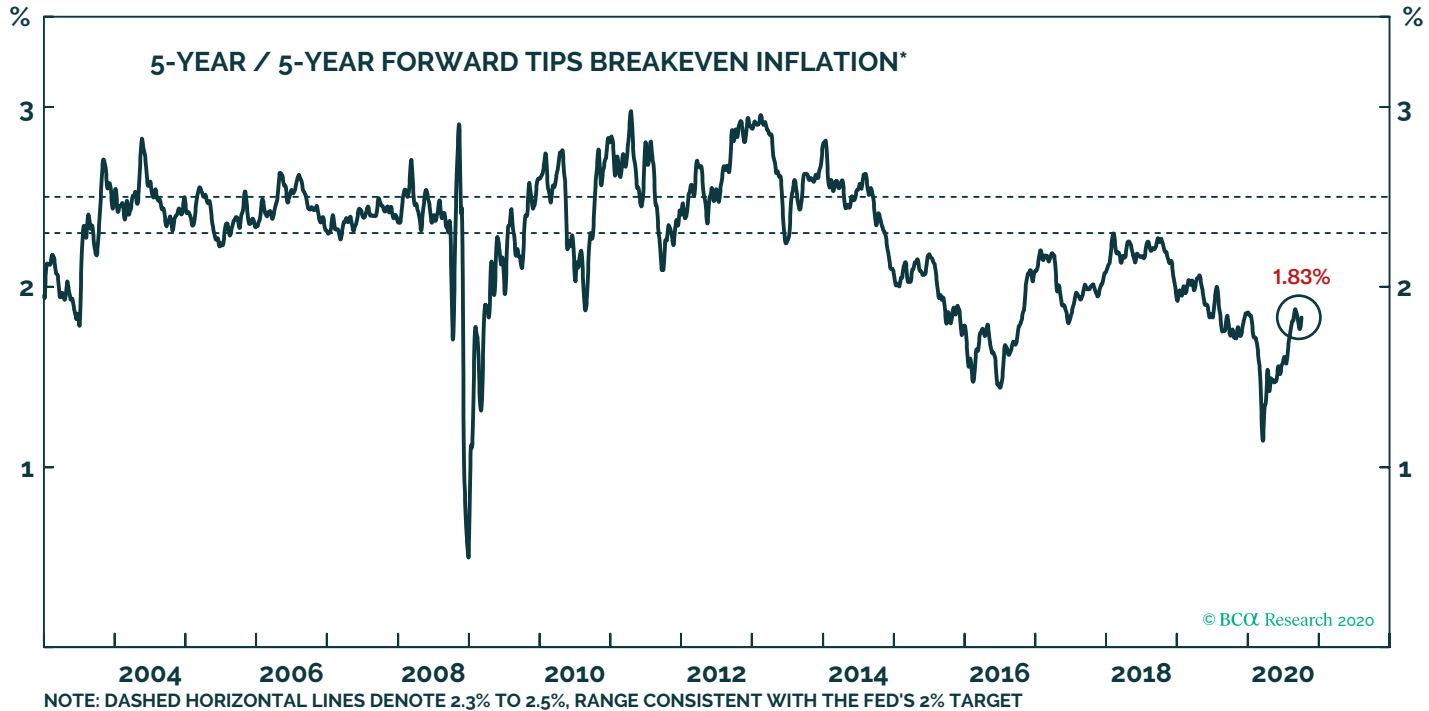
Ryan Swift
US Bond Strategist

Rob Robis
Chief Global Fixed Income Strategist

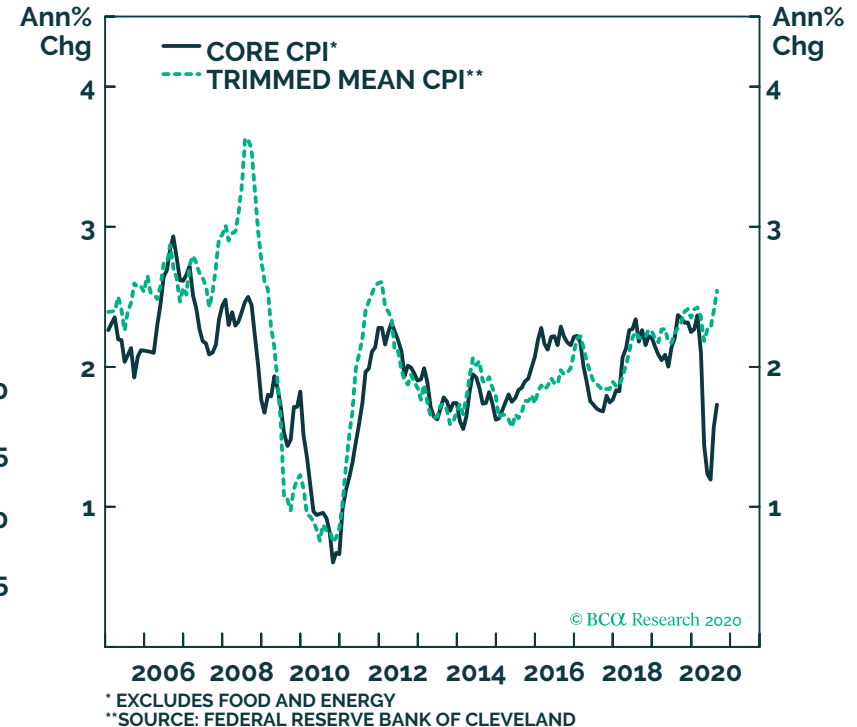
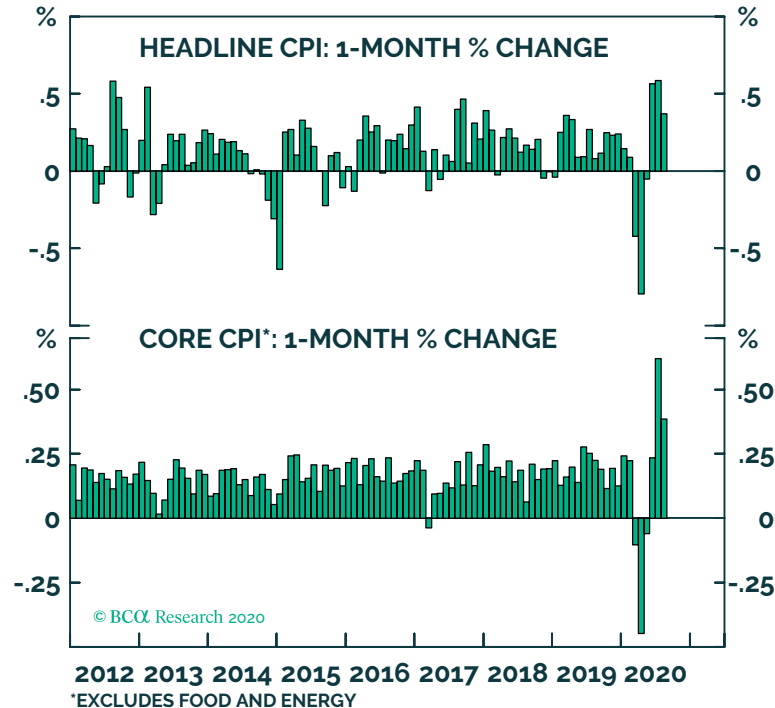
Fed And Markets Agree: No Rate Hike Until 2024



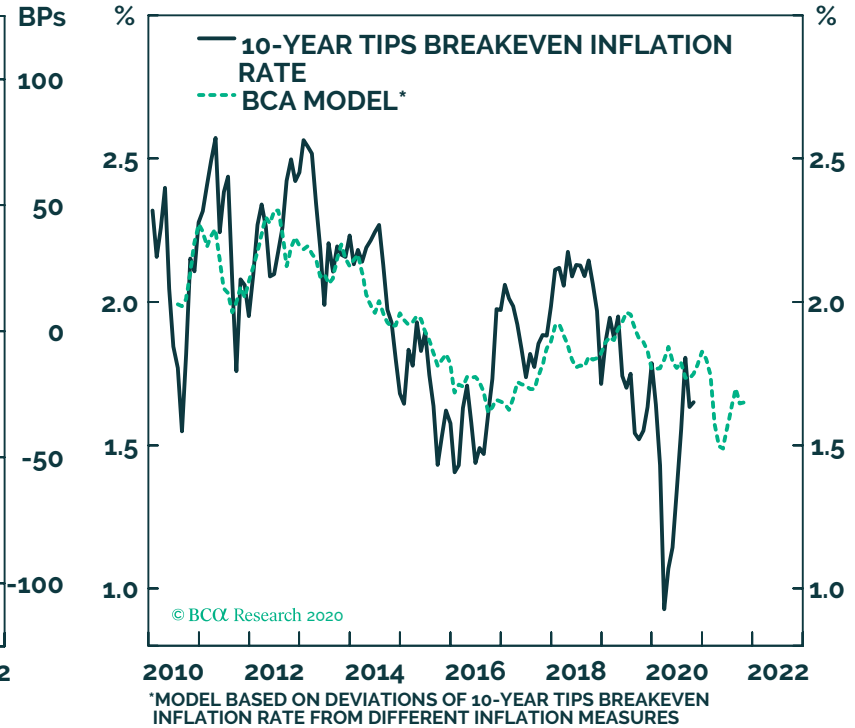
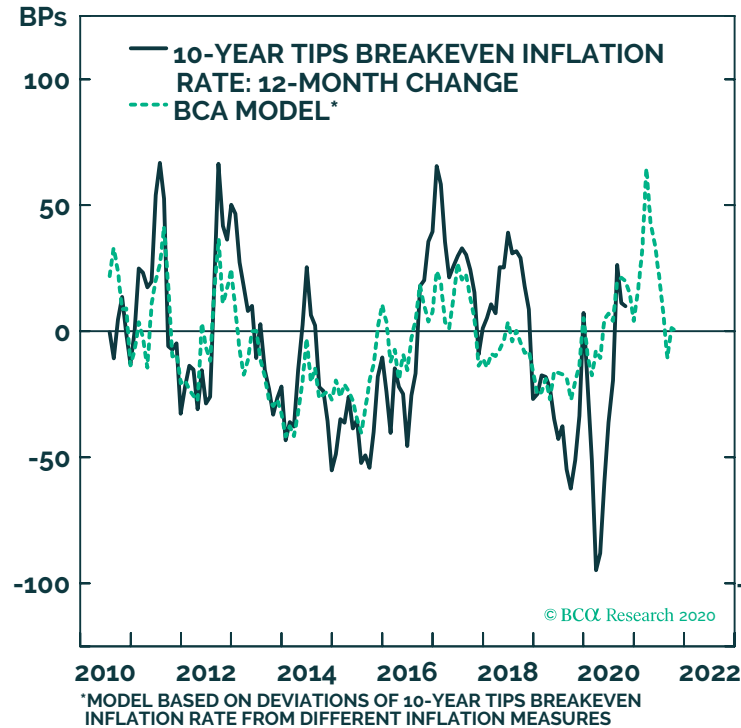
Stay Overweight TIPS



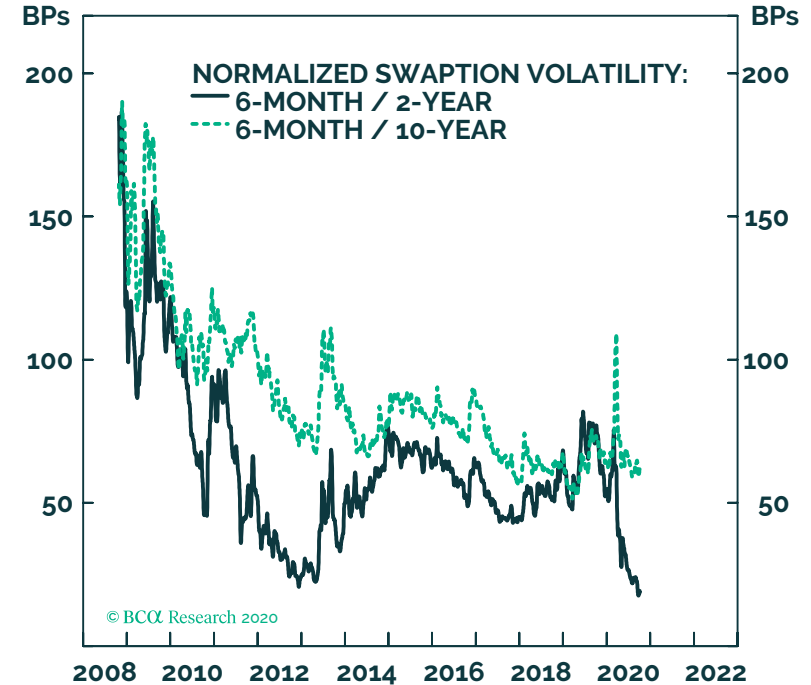
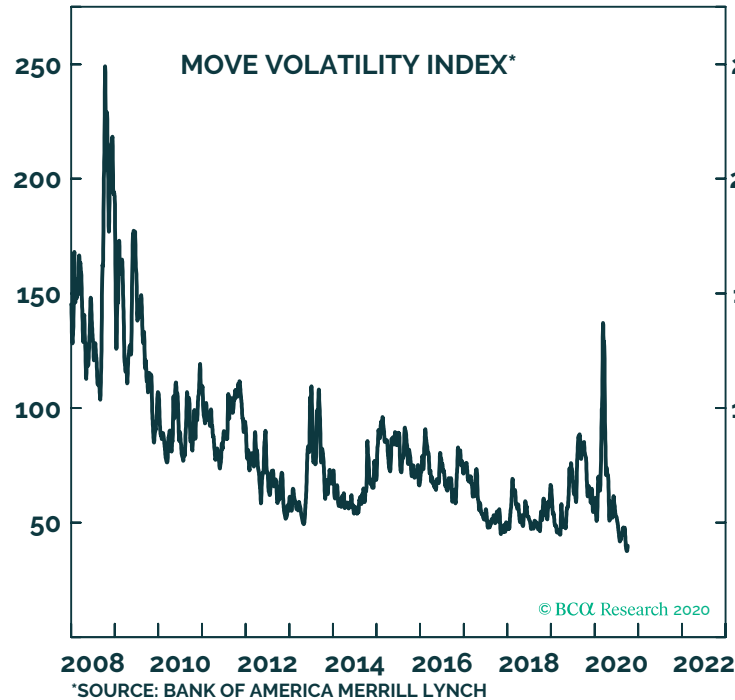
Inflation Will Continue To Rise Quickly During The Next Few Months



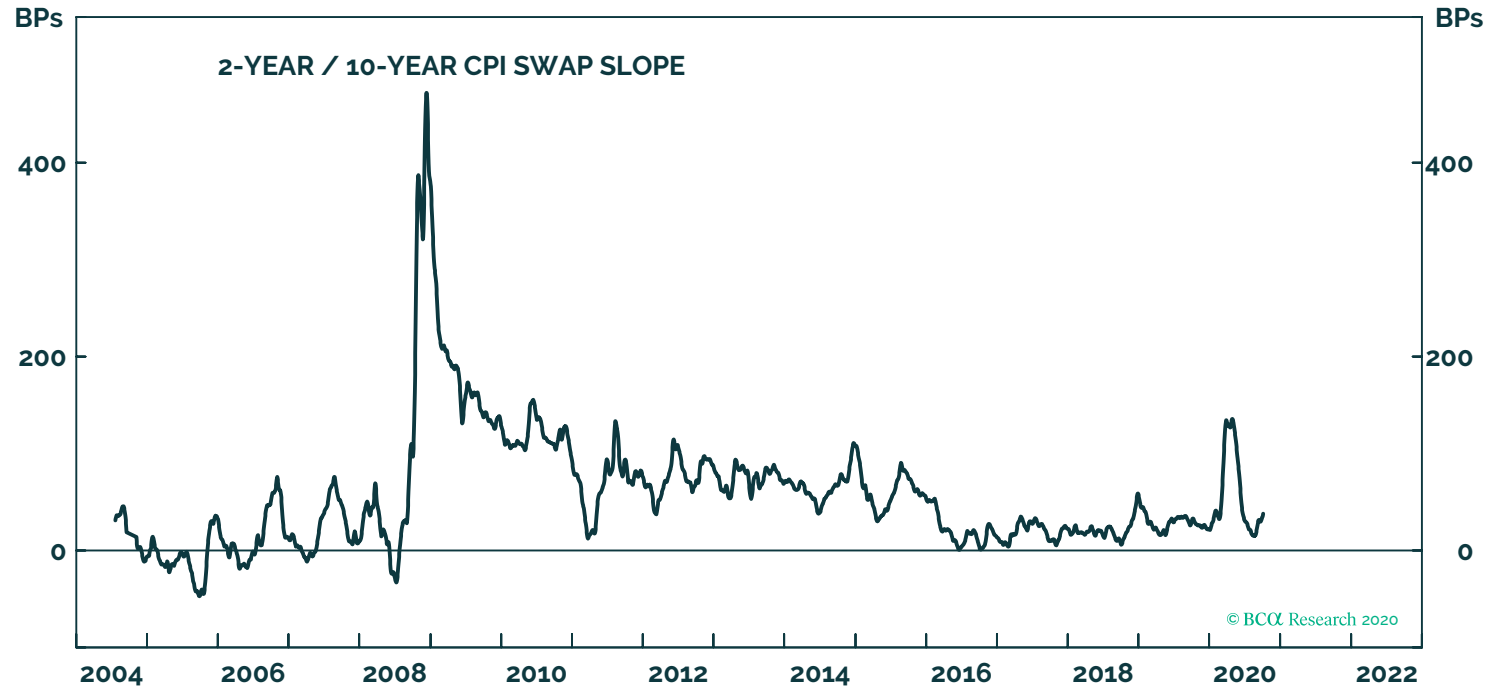
Adaptive Expectations Model



The Fed Has Crushed Rate Vol



| Position For Inflation Curve Inversion



Corporate Bond Excess Returns Since March 23

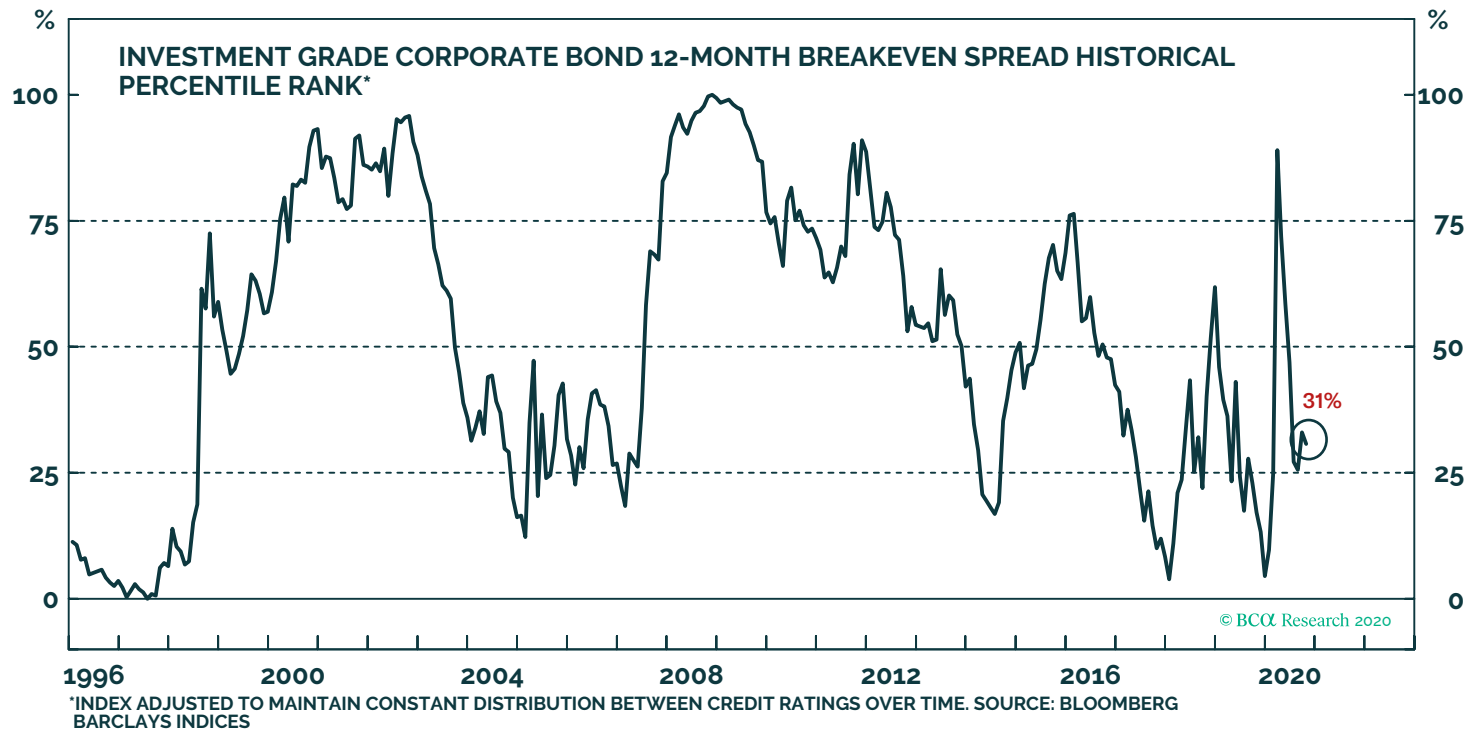
FROM MARCH 23 RD TO OCTOBER 5 TH :	EXCESS RETURN* (%)
INVESTMENT GRADE	17.6
Aaa-Rated	12.9
Aa-Rated	11.3
A-Rated	15.6
Baa-Rated	20.8

* RELATIVE TO A DURATION-MATCHED POSITION IN TREASURY SECURITIES.
SOURCE: BLOOMBERG BARCLAYS INDICES.

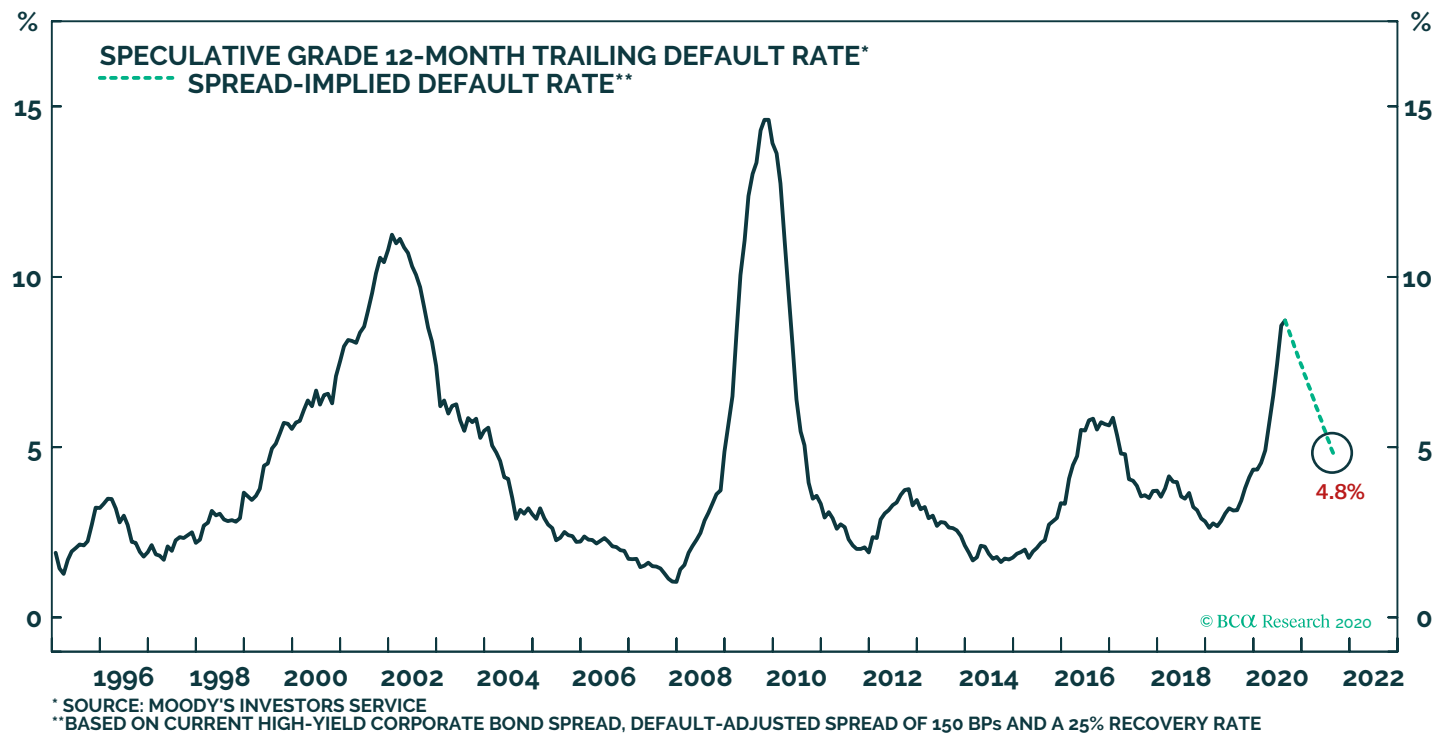
FROM MARCH 23 RD TO OCTOBER 5 TH :	EXCESS RETURN* (%)
HIGH-YIELD	24.6
Ba-Rated	25.9
B-Rated	23.1
Caa-Rated	24.0
Ca/C-Rated	20.1

* RELATIVE TO A DURATION-MATCHED POSITION IN TREASURY SECURITIES.
SOURCE: BLOOMBERG BARCLAYS INDICES.

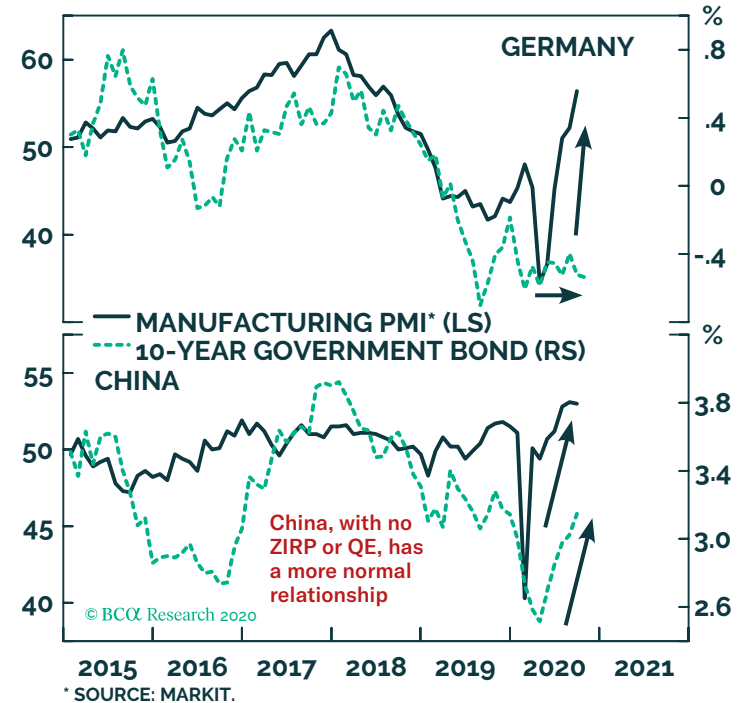
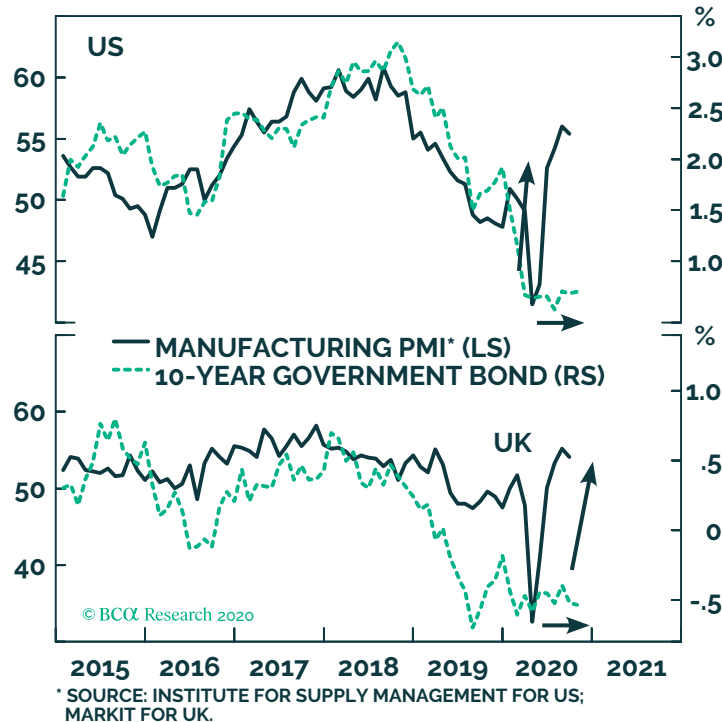
Still Room For Further Spread Tightening



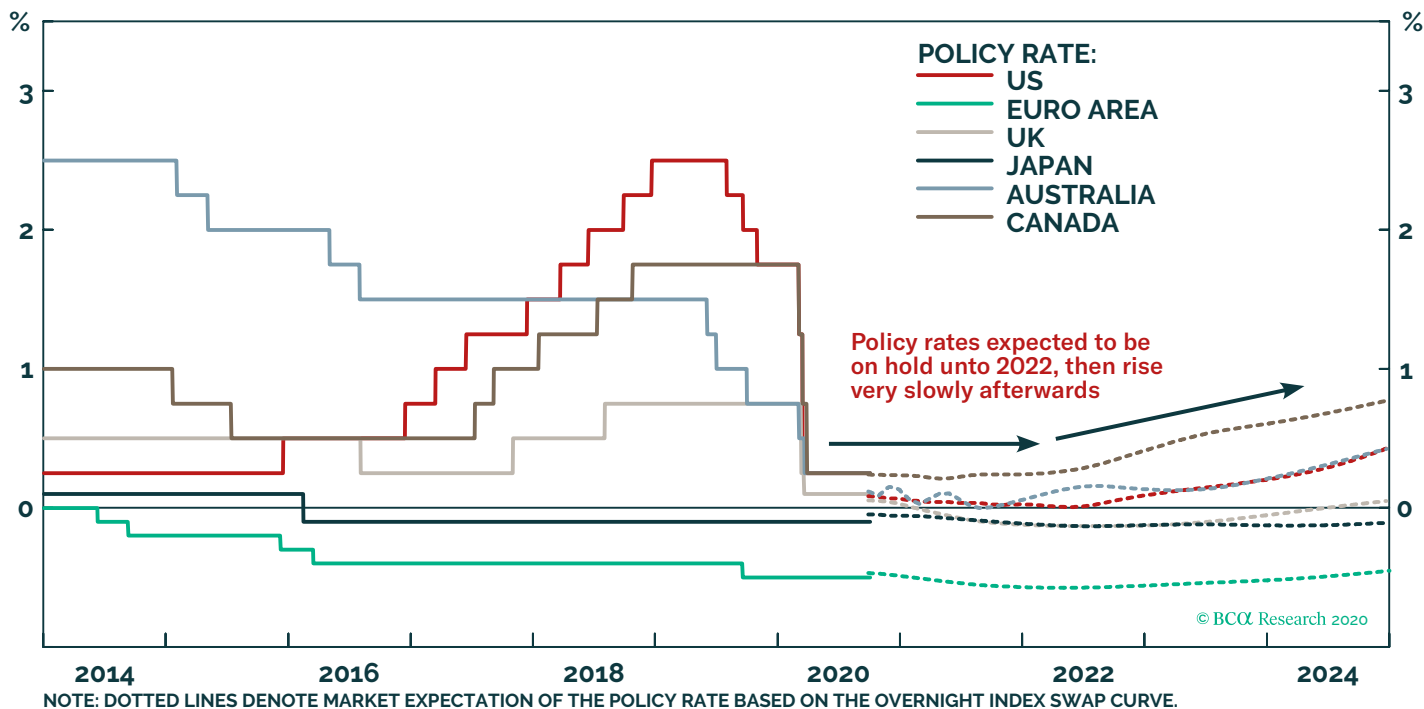
Junk Spreads Priced For A Rapid Improvement In Default Outlook



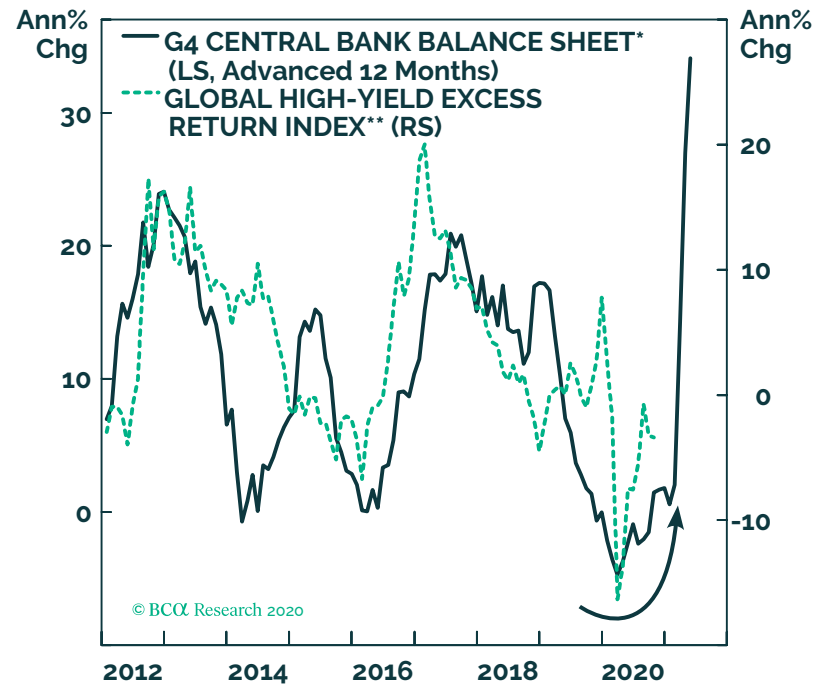
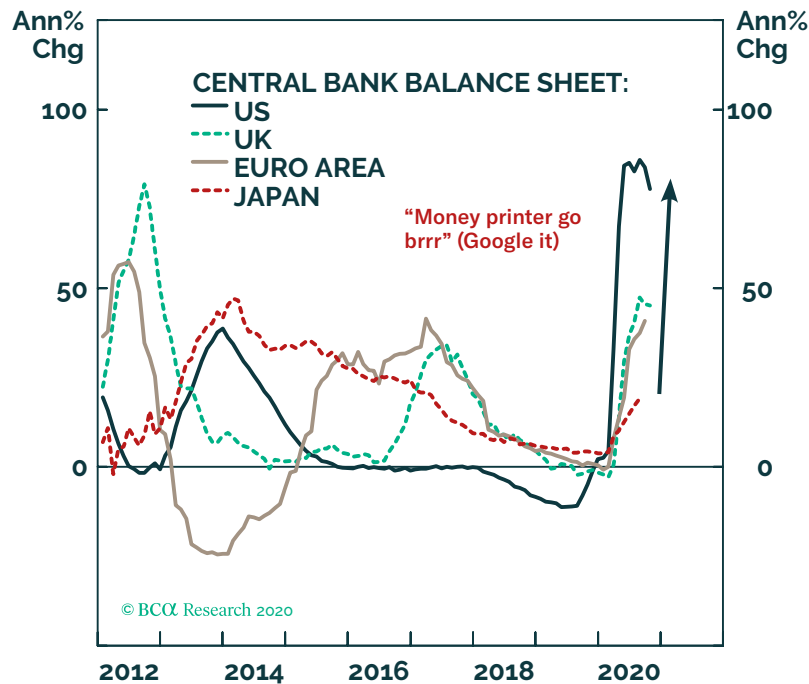
Bond Yields Ignoring Growth Rebound



Aggressive Forward Guidance Is Working



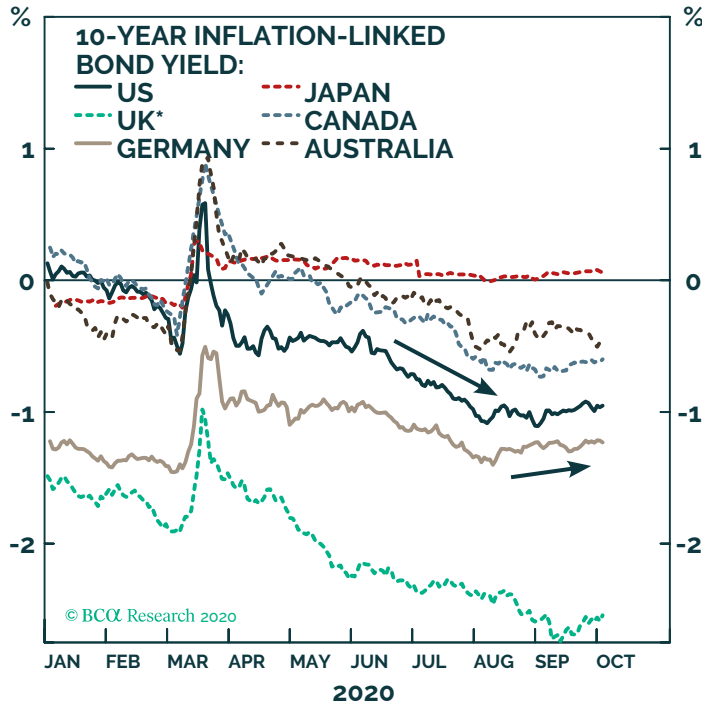
“QE Forever” Can Help Sustain Market Rallies



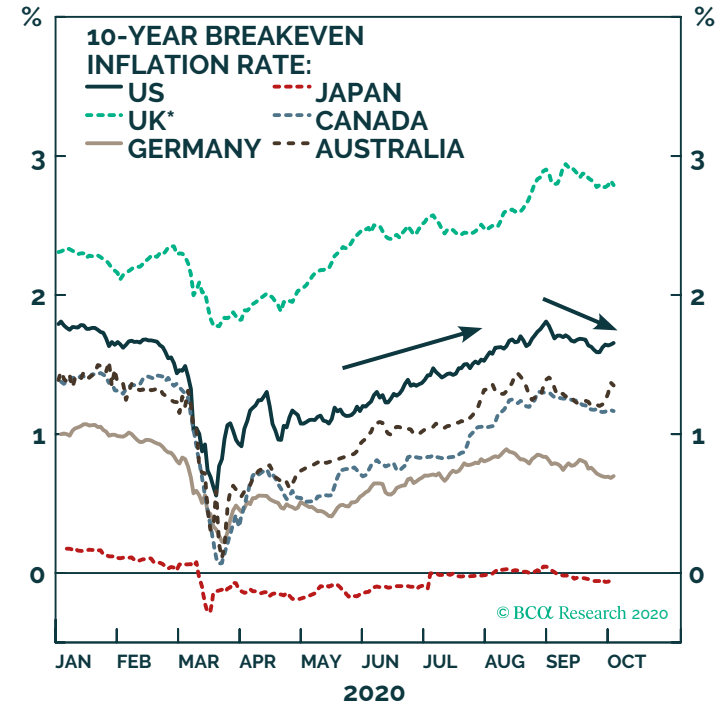
* SUM OF US, U.K., EURO AREA AND JAPAN AND CONVERTED INTO USD.

** RELATIVE TO A DURATION-MATCHED POSITION IN GOVERNMENT BOND SECURITIES. SOURCE: BLOOMBERG BARCLAYS INDICES.

Diverging Real Yields & Inflation Expectations

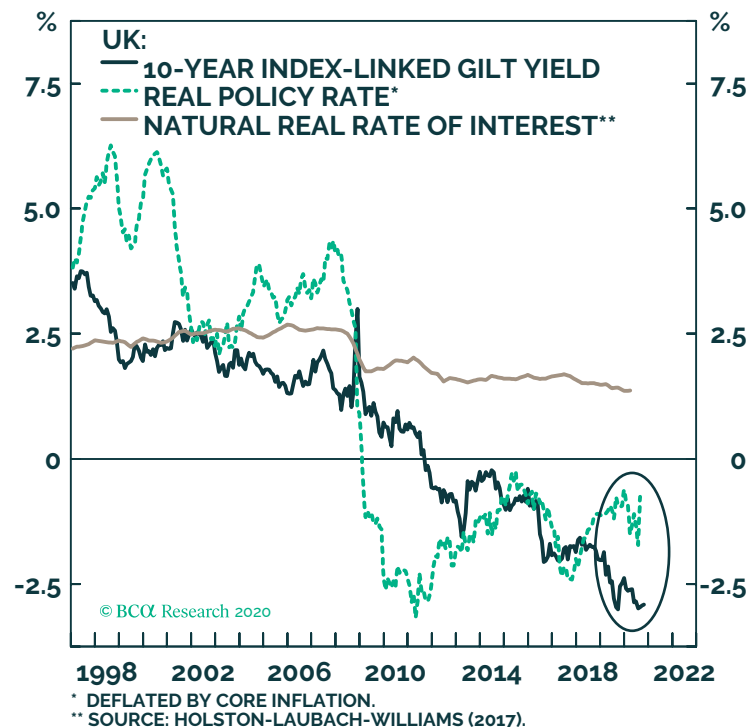
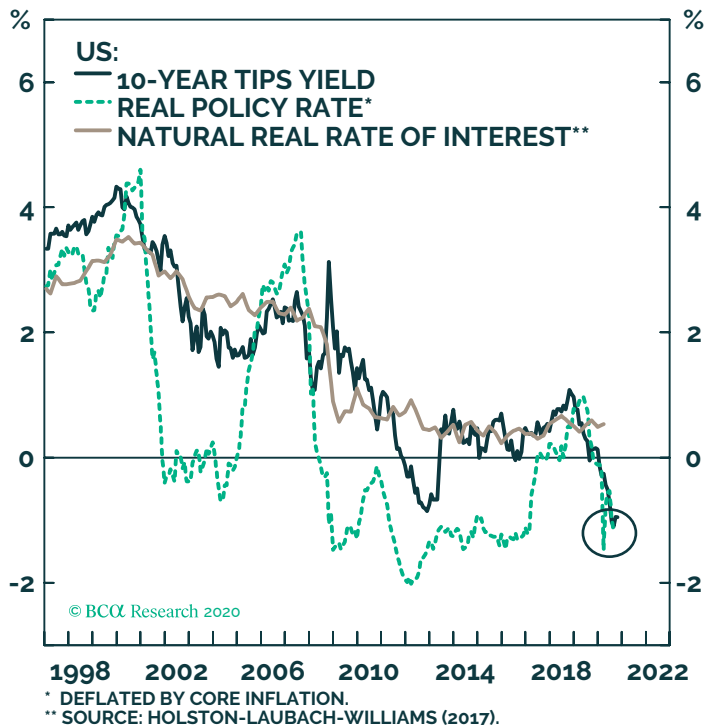


* INFLATION-LINKED BOND YIELD ADJUSTED UPWARD TO ACCOUNT FOR HISTORICAL DIFFERENCES BETWEEN UK RPI AND CPI INFLATION.

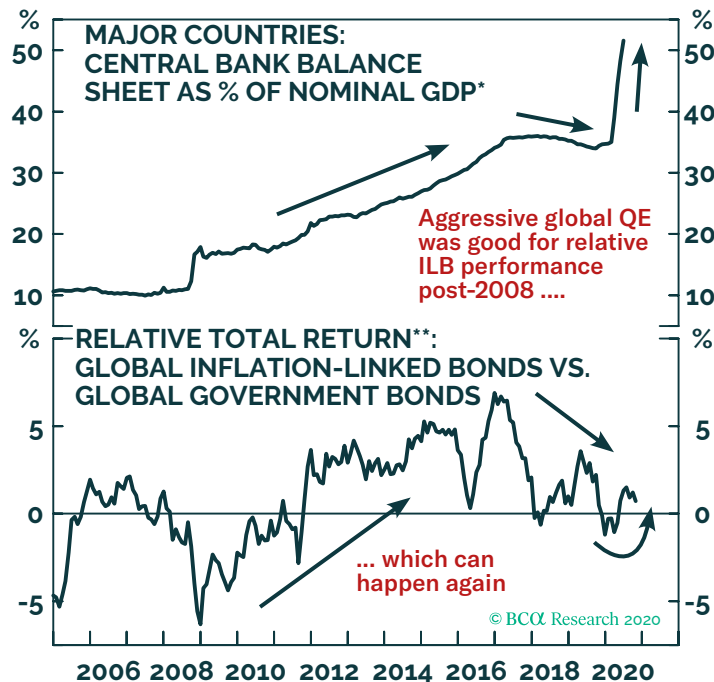


* BREAKEVEN INFLATION RATE ADJUSTED DOWNWARD TO ACCOUNT FOR HISTORICAL DIFFERENCES BETWEEN UK RPI AND CPI INFLATION.

Strong Link Between Real Policy Rates & Real Bond Yields

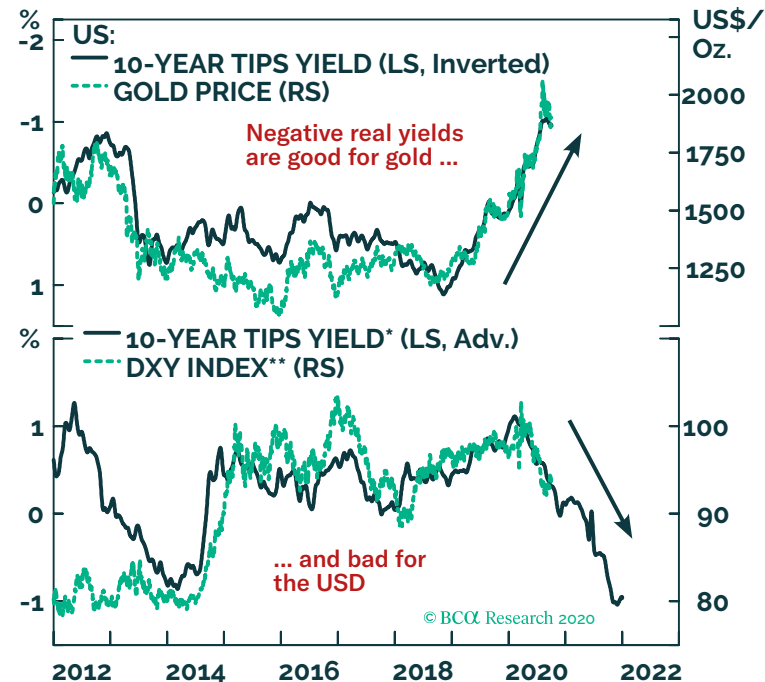


Impacts Of Negative Real Yields



* GDP-WEIGHTED AVERAGE OF US, UK, EURO AREA, JAPAN, CANADA AND AUSTRALIA; Q2 2020 GDP BASED ON FORECASTS RETRIEVED FROM BLOOMBERG FINANCE L.P.

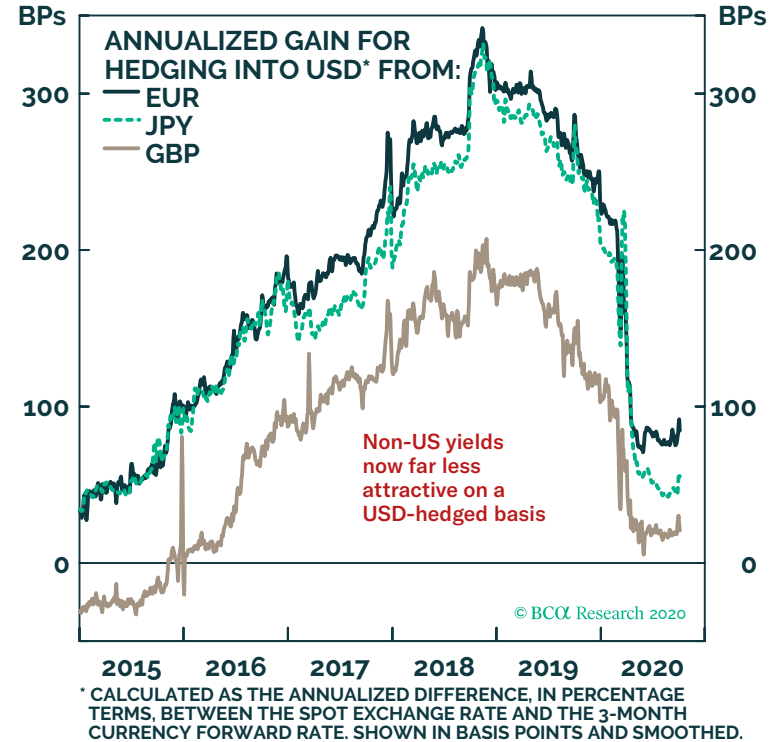
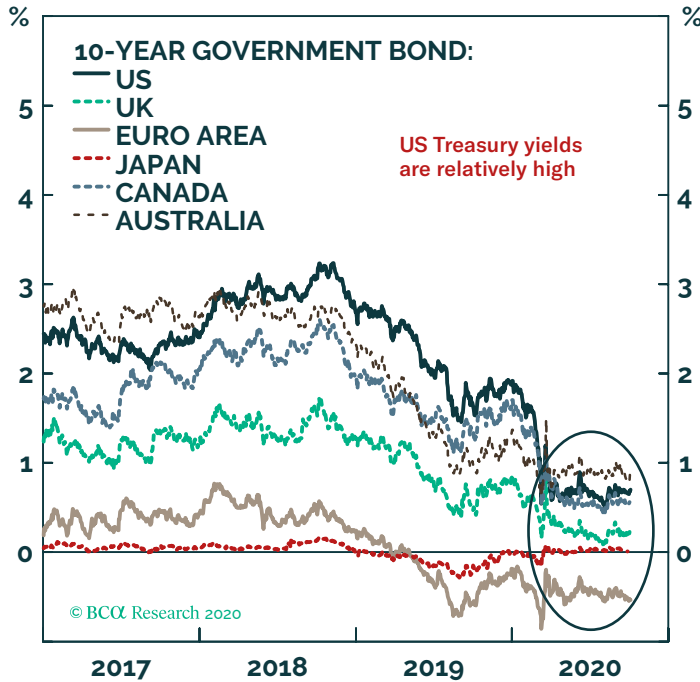
** SHOWN AS A 3-YEAR ANNUALIZED RATE OF CHANGE. CONSTRUCTED USING BENCHMARK GLOBAL INFLATION-LINKED AND GOVERNMENT BOND INDICES. SOURCE: BLOOMBERG BARCLAYS INDICES.



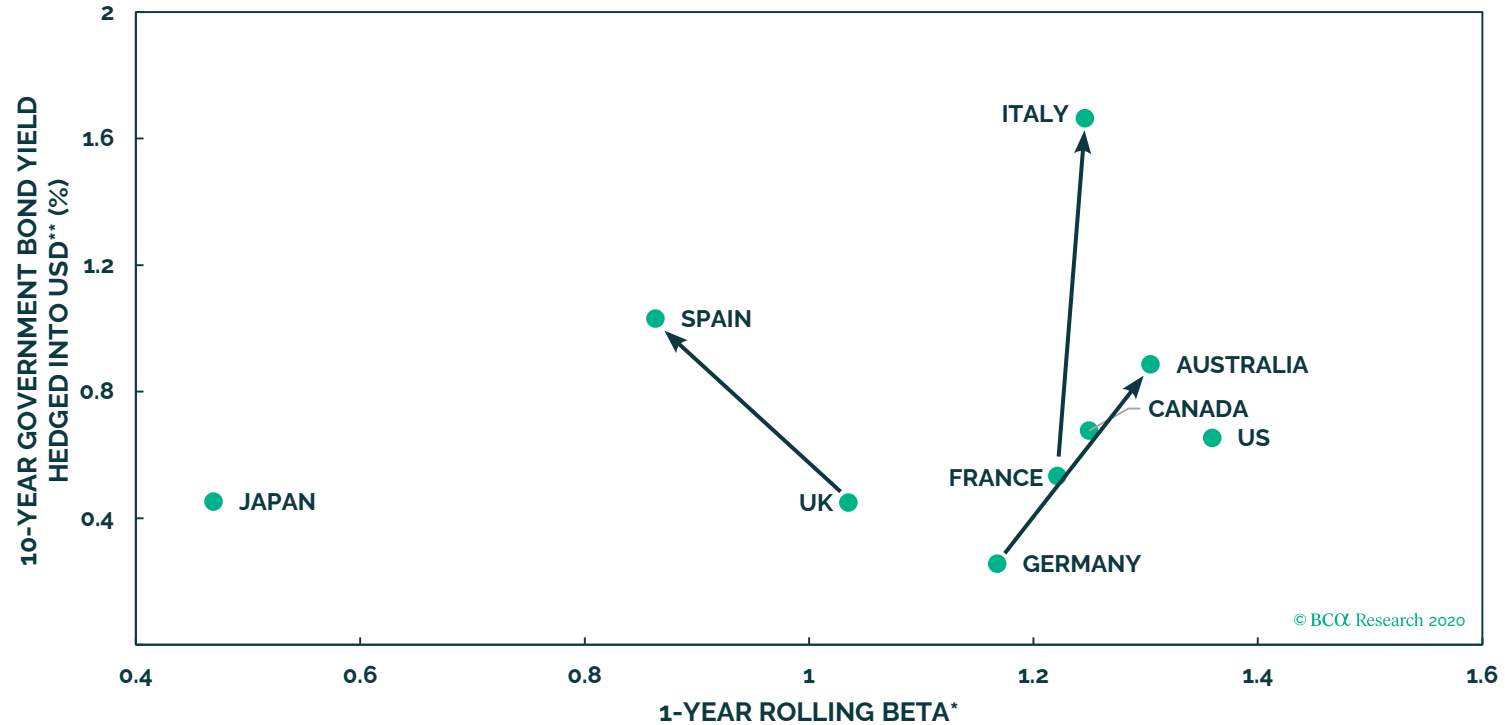
* ADVANCED 15 MONTHS.

** SOURCE: ICE FUTURES US.

US Treasuries Look Relatively Attractive



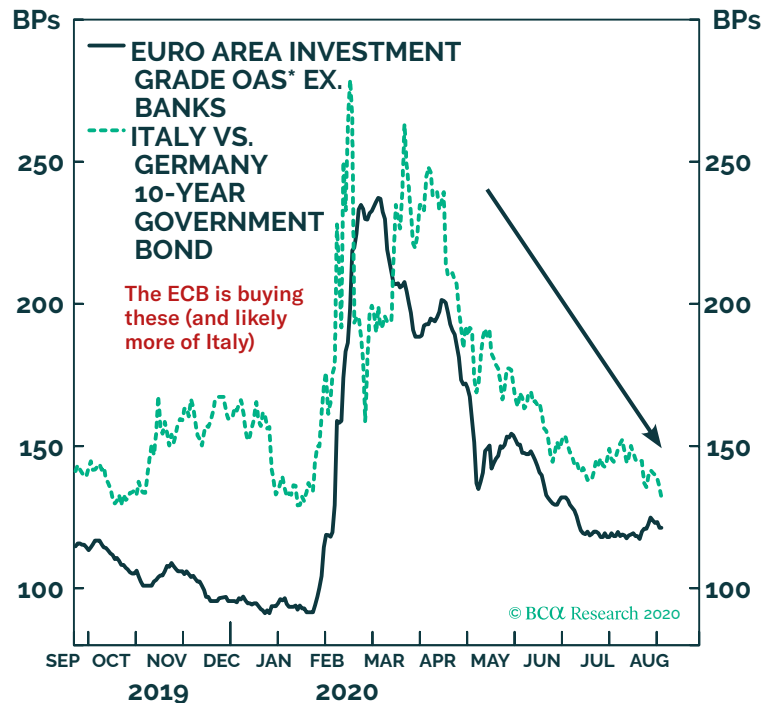
Look For Higher Govt. Bond Yields Of Similar Risk



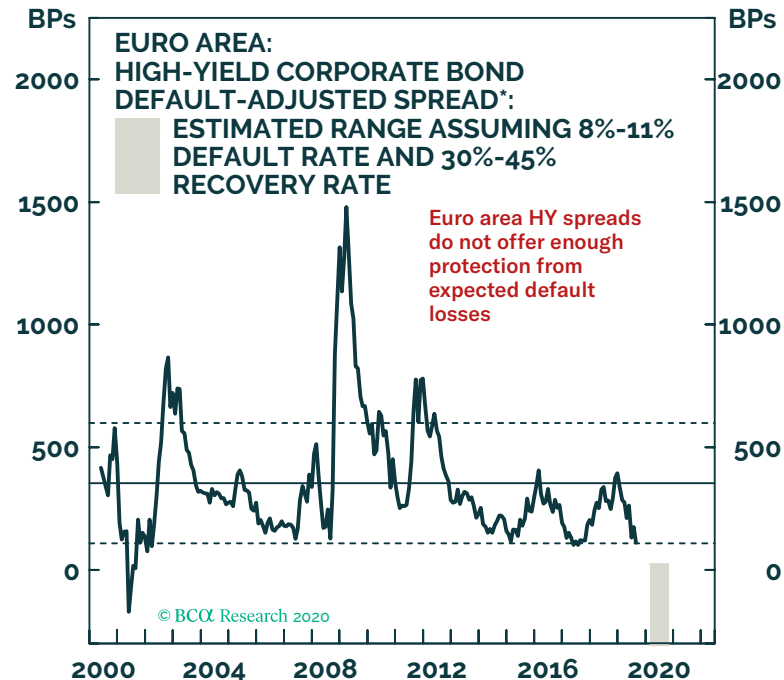
* 1-YEAR ROLLING REGRESSION OF MONTHLY CHANGE IN LOCAL 10-YEAR GOVERNMENT BOND YIELD WITH GLOBAL 7-10 YEAR YIELD-TO-MATURITY;
SOURCE: BLOOMBERG BARCLAYS INDICES.

** HEDGED USING 3-MONTH CURRENCY FORWARD RATE.

In Europe, Italian Sovereigns & IG Corporates Are Most Attractive

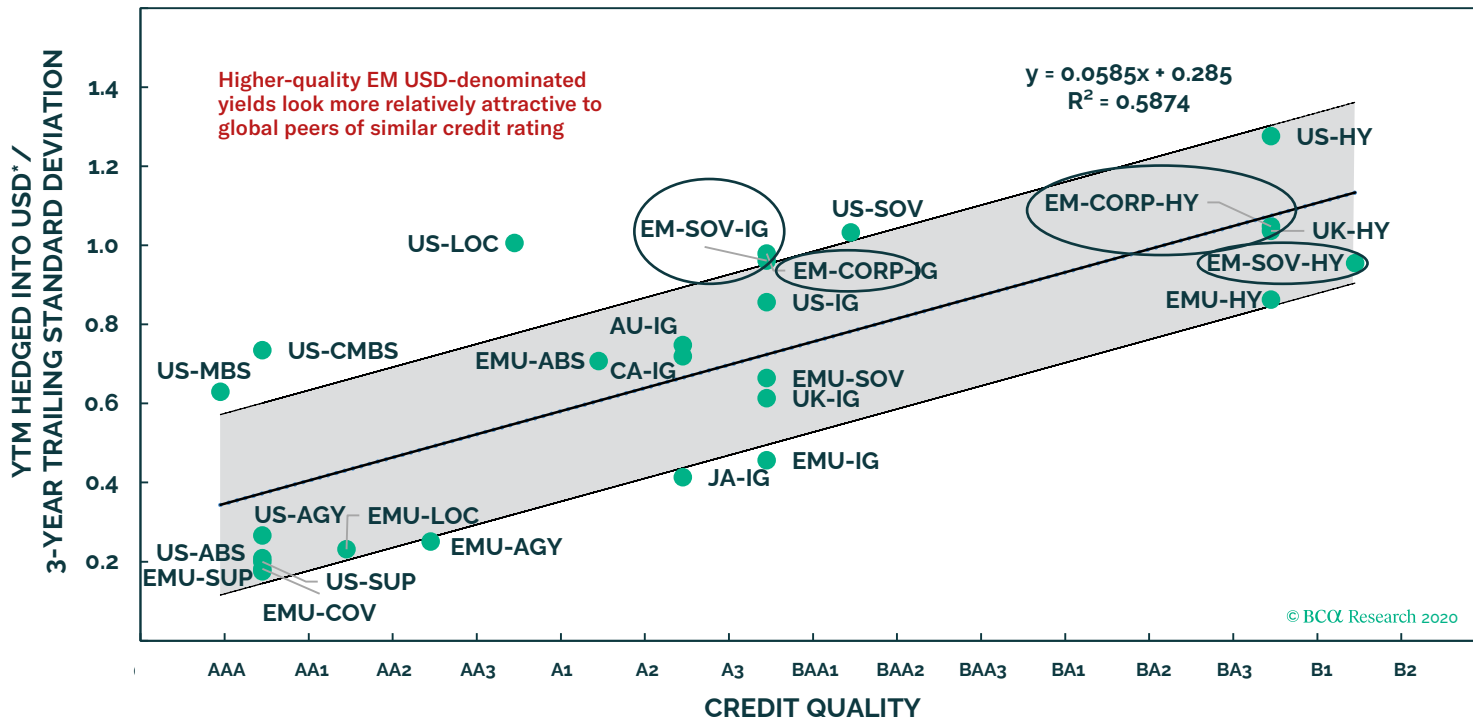


* OPTION-ADJUSTED SPREAD. SOURCE: BLOOMBERG BARCLAYS INDICES.



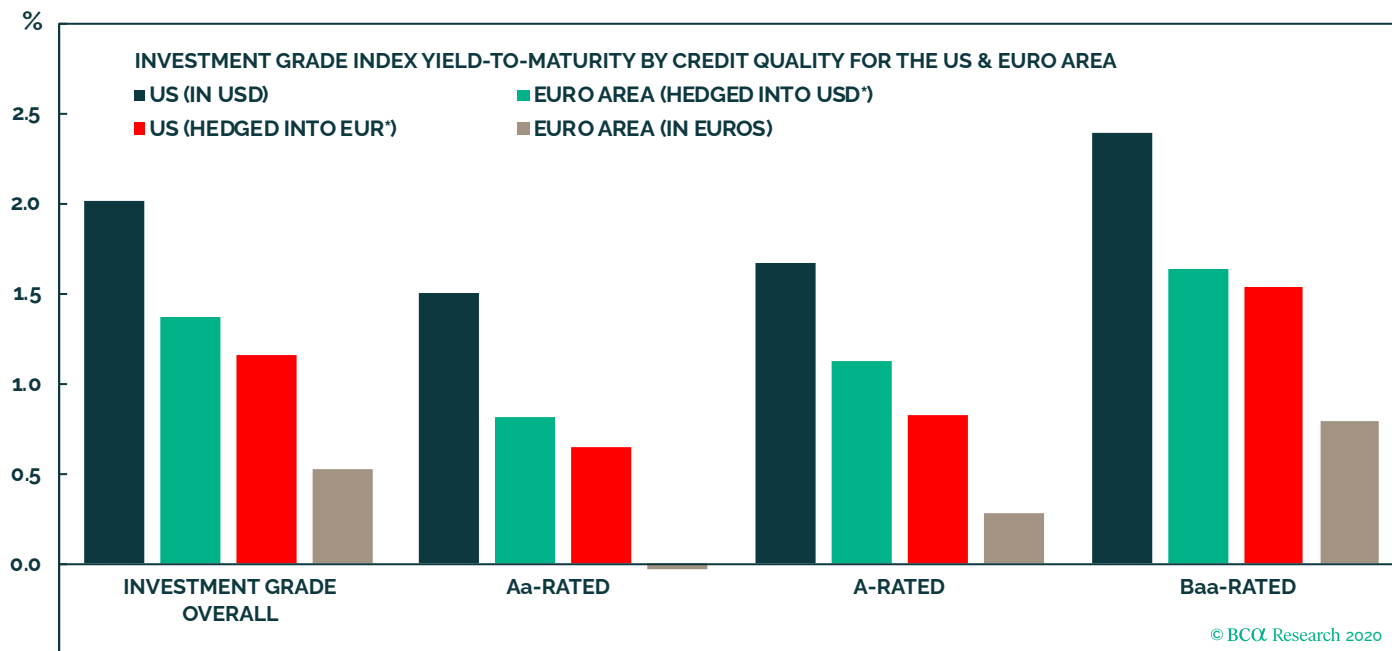
* OPTION-ADJUSTED SPREAD MINUS REALIZED DEFAULT LOSSES.
SOURCE: BLOOMBERG BARCLAYS INDICES.

Look For Higher Vol-Adjusted Yields Of Similar Credit Quality



* YIELD-TO-MATURITY HEDGED INTO USD BY 3-MONTH FORWARD CURRENCY EXCHANGE RATE DIVIDED BY 3-YEAR TRAILING STANDARD DEVIATION.
SOURCE: BLOOMBERG BARCLAYS INDICES.
NOTE: SHADED AREA DENOTES +/- ONE STANDARD DEVIATION.

US IG Yields Are More Attractive



* HEDGED USD USING THE 3-MONTH CURRENCY FORWARD RATE.
SOURCE: BLOOMBERG BARCLAYS INDICES.