

Fixed Income in a rising rate environment

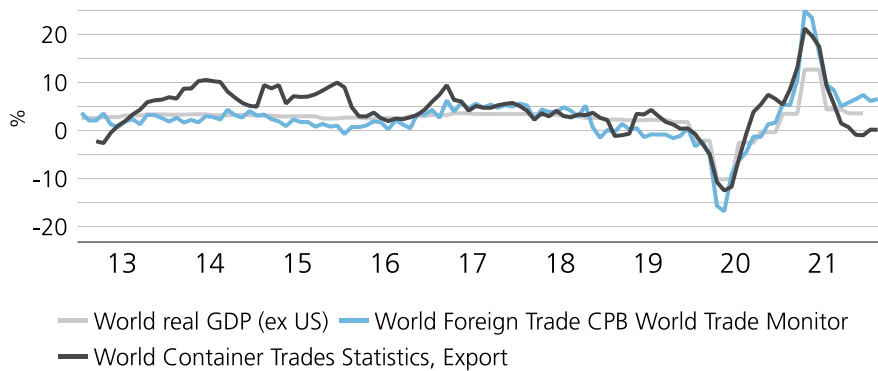
Uta Fehm
UBS Asset Management

June 2022

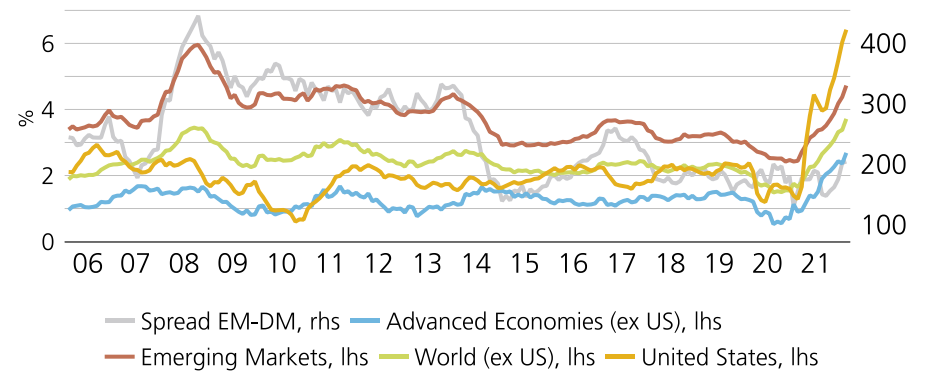


World – macro indicators

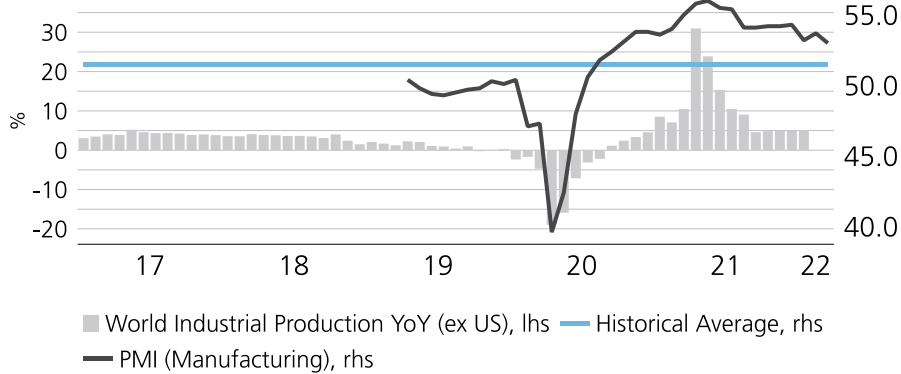
World GDP and Trade Growth (YoY)



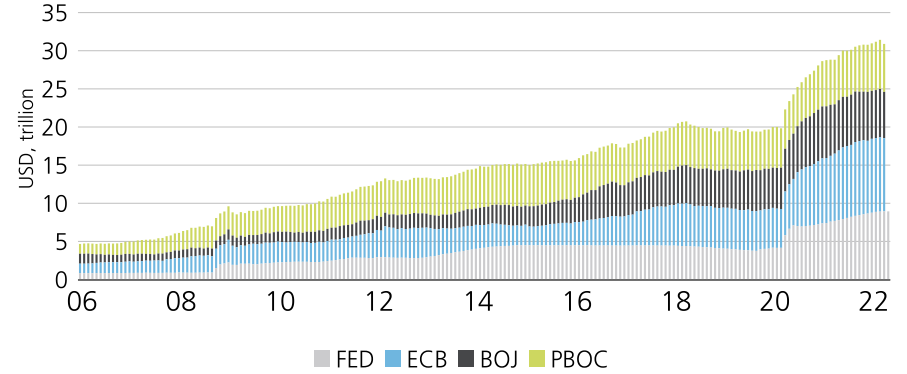
World Core CPI (YoY)



World PMI and Industrial Production



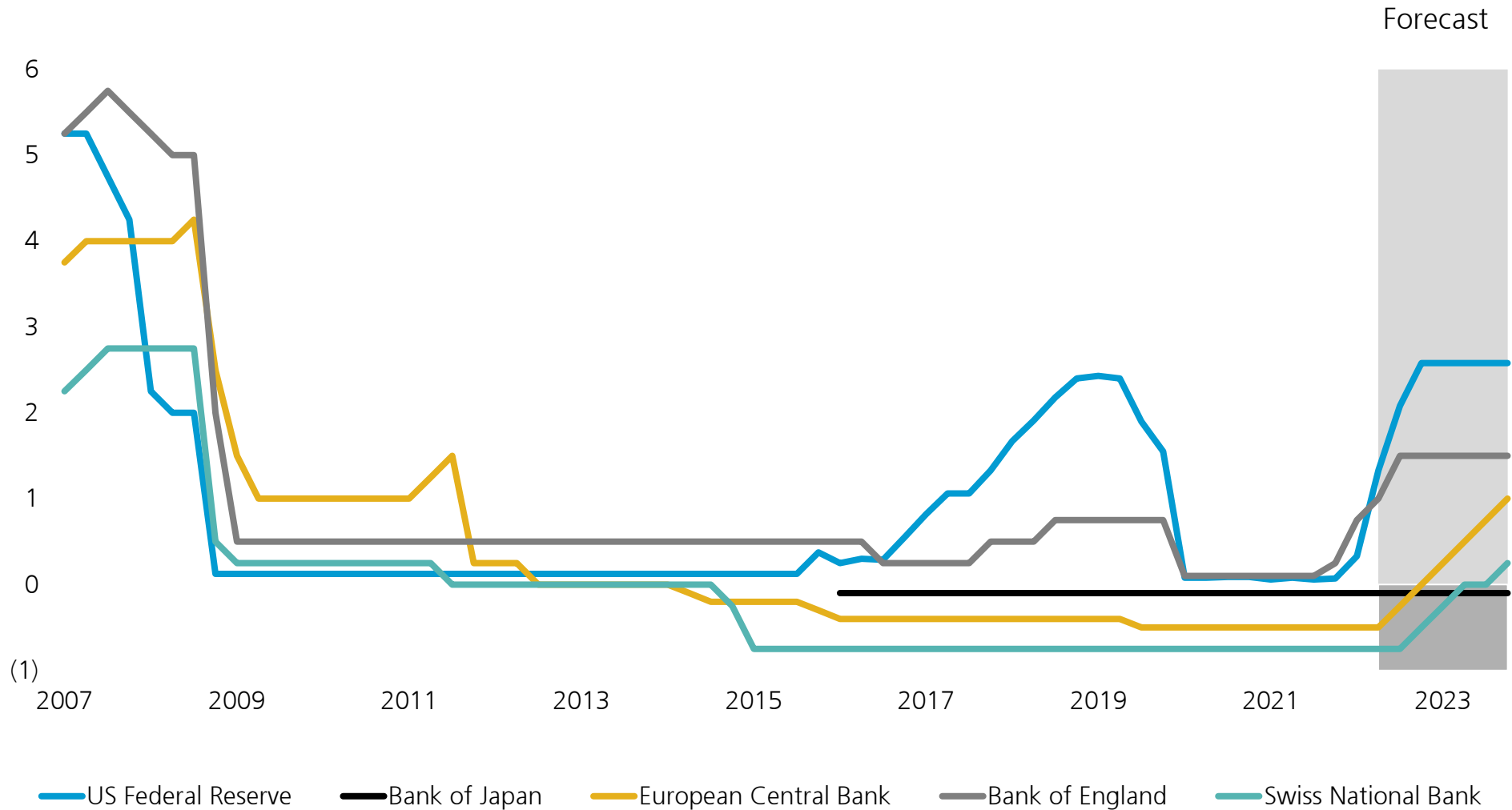
Major Central Banks Balance Sheets - Assets



Sources: UBS, Macrobond, May 2022

A new hiking cycle has started

Policy rates (US, Japan, Eurozone, UK, Switzerland), in %, UBS forecasts

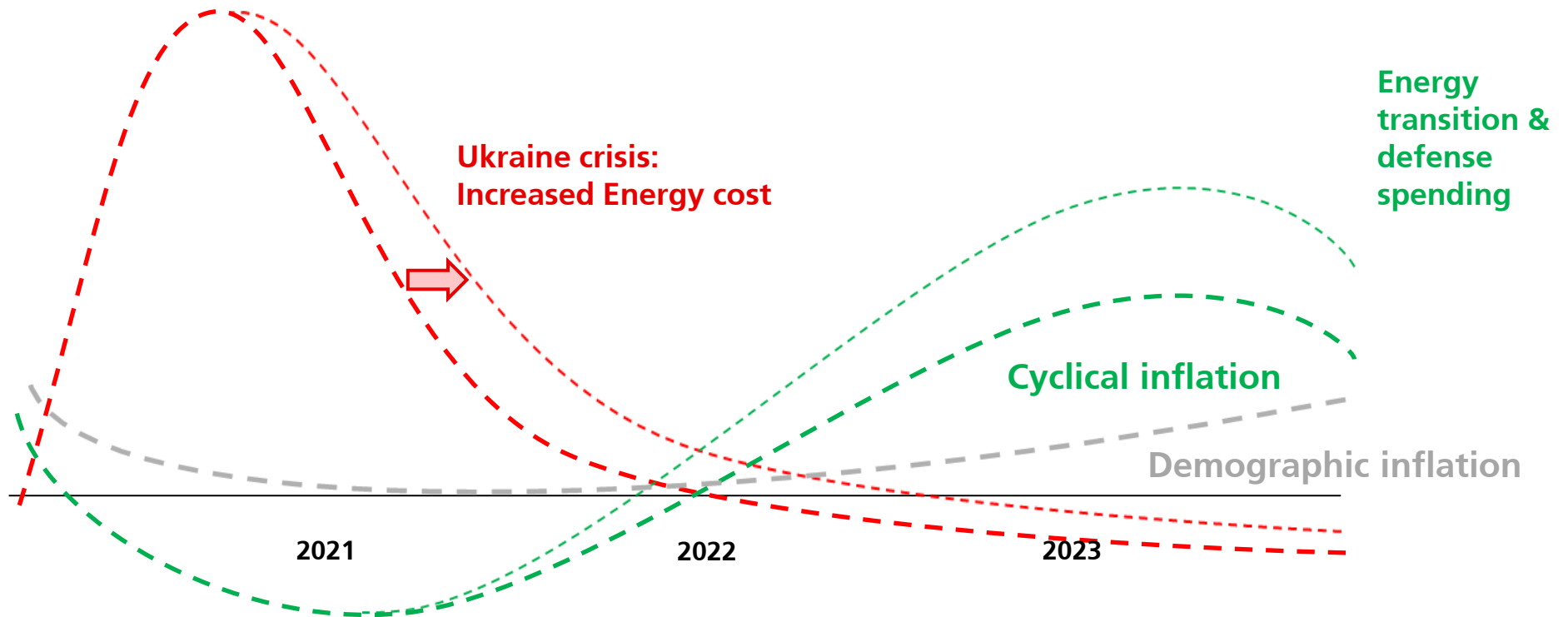


Source: UBS as of May 2022.

Charles Goodhart – «The Various Sources of Inflation»

Adjusted version: How does the current macroeconomic environment impact inflation

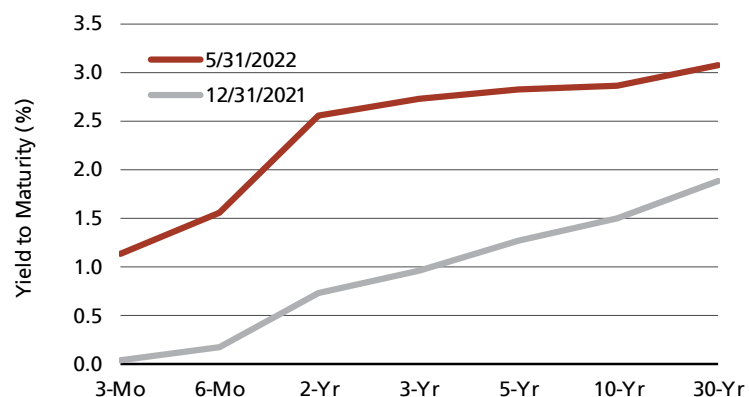
Covid Supply shortage



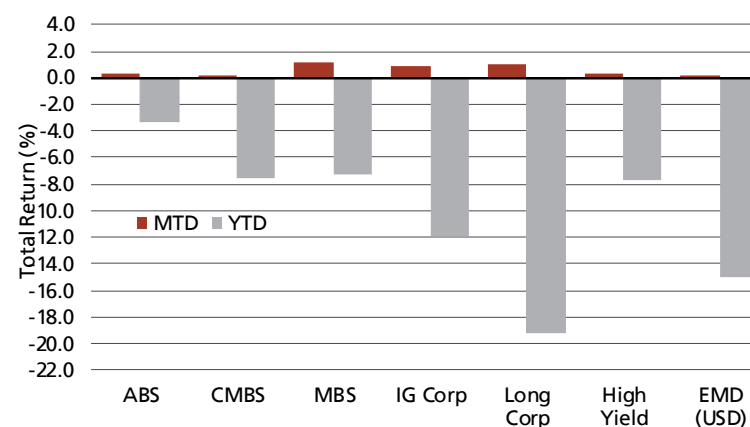
Source: Goodhart (2021), ECB, UBS-AM.

Market review: yields & returns

US Treasury Yield Curve



Total Returns



Treasury	YTM	MTD Change	3-Month Change	YTD Change	1-Year Change
3-Month ¹	1.13%	+30 bps	+79 bps	+108 bps	+112 bps
6-Month ¹	1.56%	+15 bps	+91 bps	+138 bps	+154 bps
2-Year ¹	2.55%	-16 bps	+110 bps	+182 bps	+241 bps
3-Year ¹	2.72%	-16 bps	+108 bps	+176 bps	+242 bps
5-Year ¹	2.82%	-12 bps	+109 bps	+156 bps	+203 bps
10-Year ¹	2.85%	-5 bps	+103 bps	+136 bps	+128 bps
30-Year ¹	3.07%	+10 bps	+90 bps	+118 bps	+81 bps

	YTW	MTD Tot.Ret.	3-Month Tot. Ret.	YTD Tot. Ret.	1-Year Tot.Ret.
ABS ²	3.37%	0.31%	-2.16%	-3.32%	-3.84%
CMBS ²	3.80%	0.21%	-4.94%	-7.58%	-8.01%
MBS ²	3.46%	1.11%	-4.98%	-7.29%	-7.59%
IG Corp ²	4.21%	0.93%	-6.99%	-11.92%	-10.28%
Long Corp ²	4.75%	1.00%	-11.39%	-19.26%	-15.15%
High Yield ³	7.00%	0.29%	-4.24%	-7.71%	-4.93%
EMD (USD) ⁴	7.44%	0.03%	-6.41%	-15.03%	-15.38%

Source: Barclays, ICE BofAML, JPMorgan Market. As of May 31, 2022

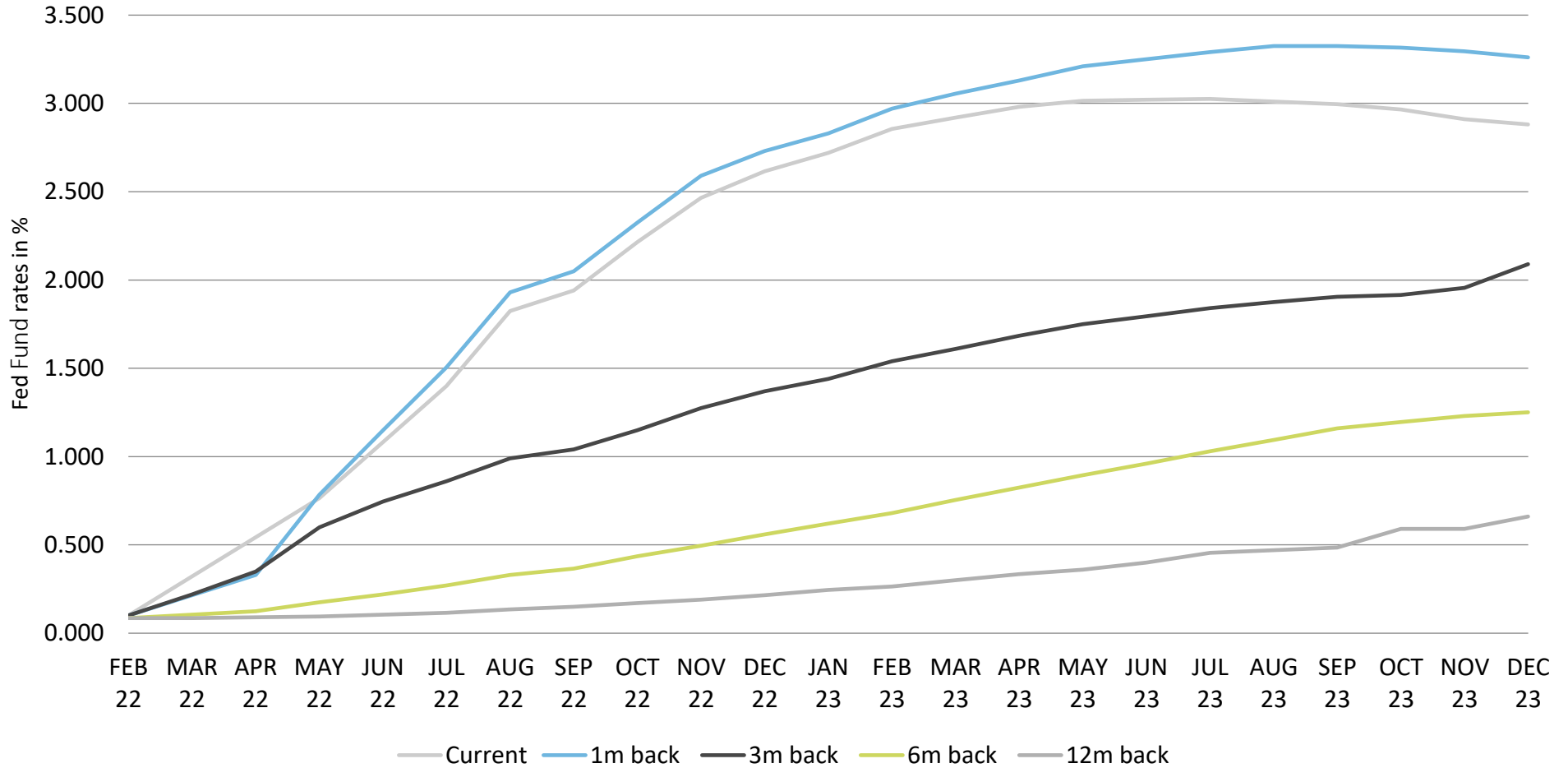
1. Bloomberg Bellwether inde

2. Bloomberg Index

3. BofAML Cash Pay US High Yield Constrained Index

4. JPMorgan EMBI Global Diversified Index

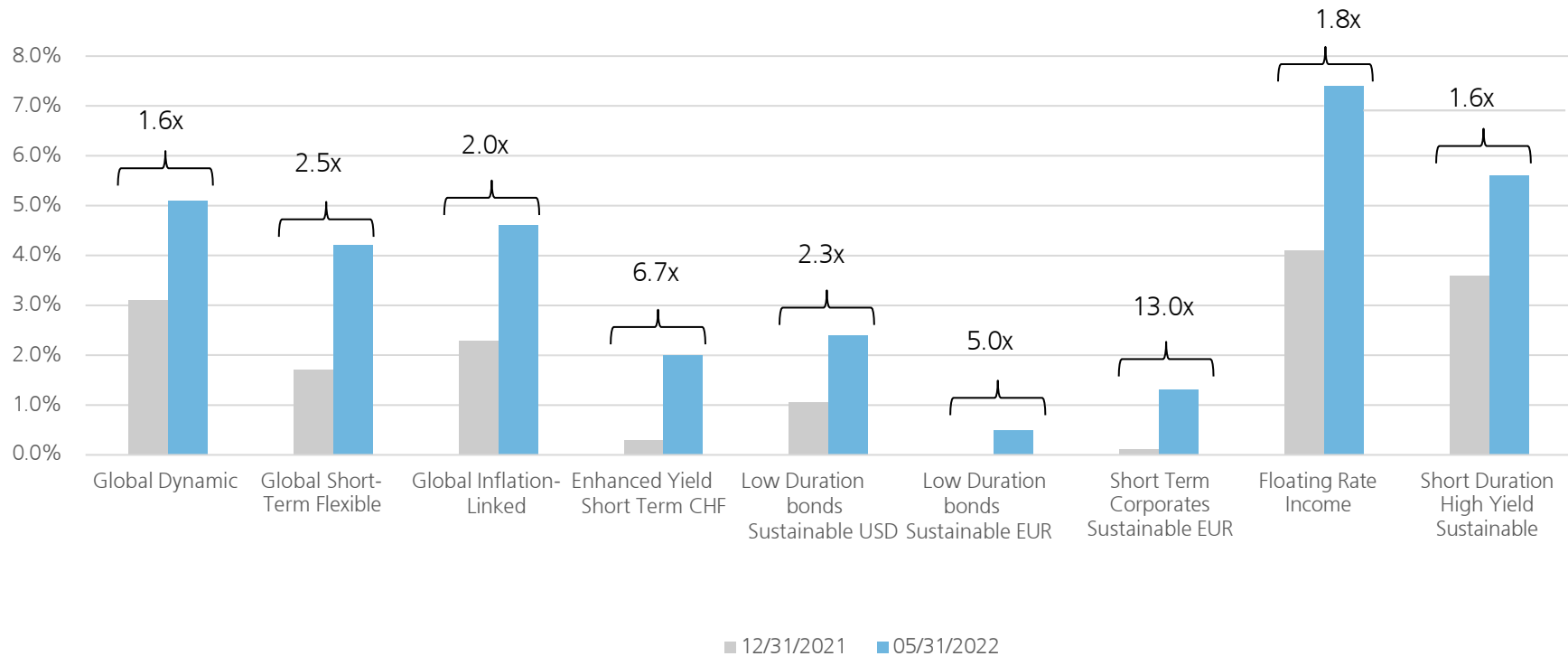
Fed Funds Futures



Source: Bloomberg Finance LP, Barclays
As of May 31, 2022

“Income” Returning to Fixed Income

Yield Change since 31 December 2021



Source: UBS Asset Management per 31 May 2022

Key messages

Markets have priced in an aggressive, front-loaded policy rate hiking cycle in the US, other CB follow

- While significant uncertainty remains regarding the macroeconomic outlook, a lot of rate hikes globally has happened already or is at least priced in. So negative market reactions should be limited.
- We think fixed income's risk-returns has been stabilizing and will improve going forward, which might be a good time for investors to revisit their allocation to the asset class

Higher yield – a step back towards normality

- While the sharp upward repricing across the curve lead to significant negative returns and unrealized losses, current yields have become a lot more attractive.
- Only a year ago there were a record amount of bonds (roughly USD 18tr) trading with negative yields, but this has largely disappeared with only around USD 2tr remaining. Bonds now offer positive yields.
- Higher yields mean that investors are generating more income from their bond holdings, which helps offset potential mark-to-market losses from a further move higher in yields

Still high uncertainty and volatility while positive Convexity

- Most bonds in the market are now trading at yields higher than their fixed coupons and bonds are trading at a discount to the redemption values.
- The positive convexity of bonds should be supportive even if the markets are still volatile.
- Based on a fragile economic environment, the regional dispersion in terms of monetary and fiscal policy as well as a still heightened risk aversion, we prefer flexibility and some additions outside the Core FI world

Source: UBS Asset Management per 31 May 2022

Take advantage of opportunities

Topics to successfully navigate the path ahead



Where Possible, be Flexible

Global Dynamic
Yield: 5.1%
IR duration: 0.3y
Avg Rating: A- AuM

Global Short-Term Flexible
Yield: 4.2%
IR duration: 0.9y
Avg Rating: A AuM



In IG, Keep a Low Interest Rate Profile

Enhanced Yield Short Term CHF
Yield CHF: 2%
IR duration: 0.4y
Avg Rating: BBB+ AuM

USD / EUR Low Dur Sustainable
Yield USD / EUR: 2.4% / 0.5%
IR duration: 0.6y / 0.7y
Avg Rating: A / A-

USD / EUR ST Corp Sustainable
Yield USD / EUR: 3.9% / 1.3%
IR duration: 1.8y / 1.6y
Avg Rating: BBB+ / BBB+



In HY, Float with the Fed or Keep it Short

Floating Rate Income
Yield: 7.4%
IR duration: 0.2y
Avg Rating: BB-

Short Duration High Yield Sustainable
Yield USD: 5.6%
IR duration: 1.9y
Avg Rating: BB-



Stay diversified or sustainable

China Fixed Income **Yield**
CNY: 2.7%
IR duration: 5.6y
Avg Rating: A

Global S-T EM local
Yield: 7.9%
IR duration: 0.6y
Avg Rating: A-

Quelle: UBS Asset Management per 31. Mai 2022 (provisorische Angaben, welche von den offiziellen Angaben abweichen können).

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