



WHEN CENTRAL BANKS REDEFINE THEIR MANDATES

WHAT CONSEQUENCES FOR FIXED INCOME INVESTORS

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06 July 2021

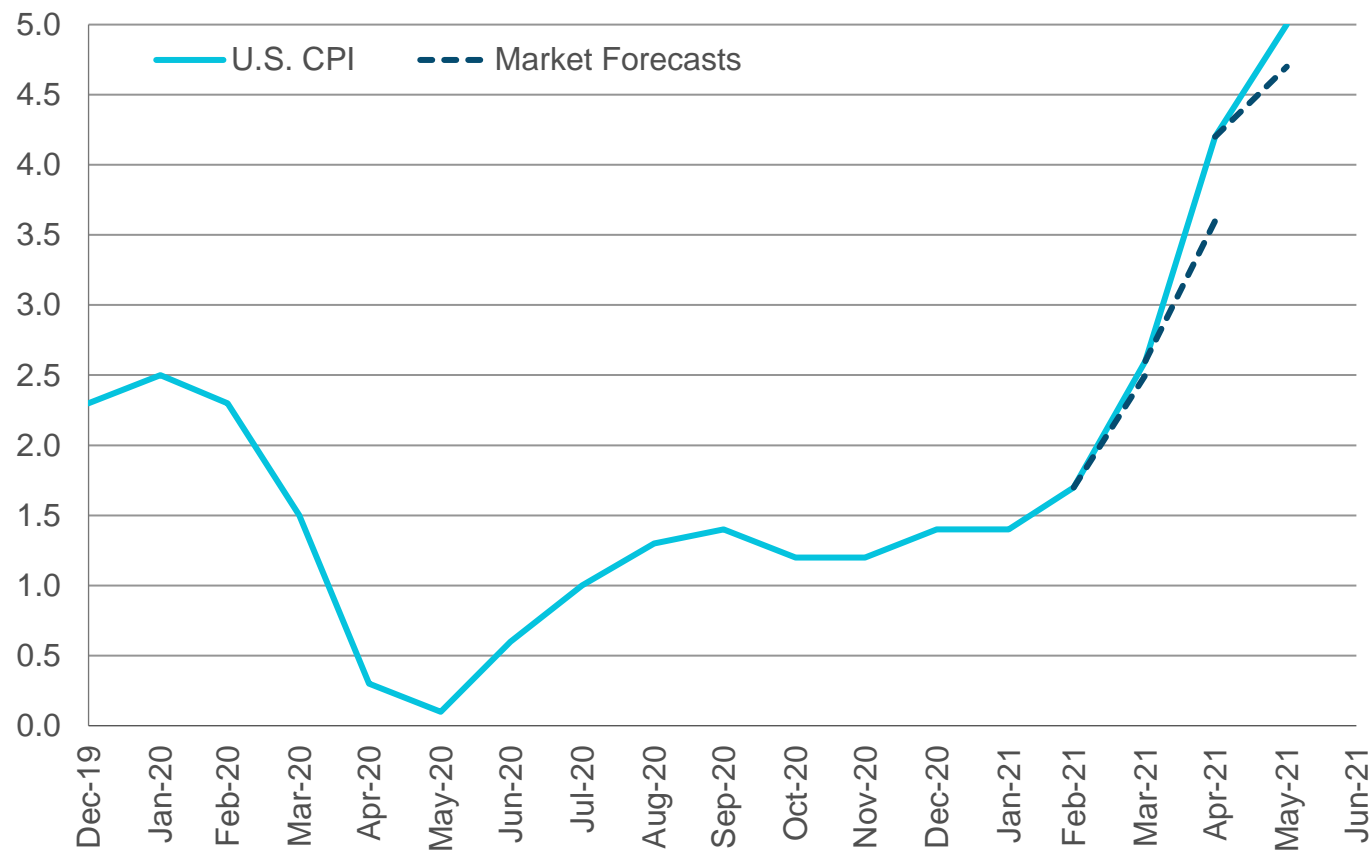
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Ignore the Inflation Risk at your Own Peril

As of 30 Jun 2021

U.S. INFLATION

%, YoY Change





Past performance is not a reliable indicator of future performance.

Source: Bureau of Labor Statistics

Please refer to the additional disclosures for further source information.

LOOKING UNDER THE HOOD

- 
- Energy Prices
 - Shelter and Medical Care
 - Consumer Pent Up Demand
 - Supply Side Shortage
 - Future Taxes?

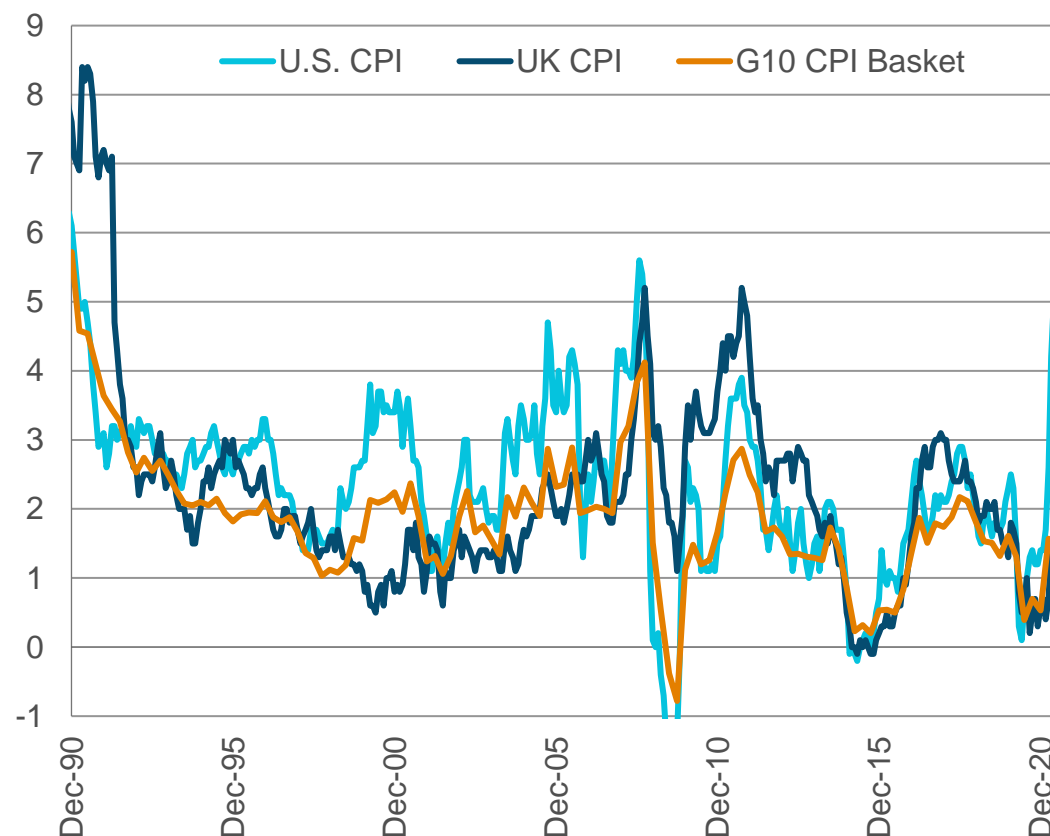
- 
- Slack Labor Market
 - Potential Buyers' Strike
 - Central Bank Rate Hikes?

A U.S. Problem Only?

As of 30 Jun 2021

THE U.S. TENDS TO LEAD GLOBAL INFLATION... ... AND INTEREST RATE TRENDS

%, YoY Change

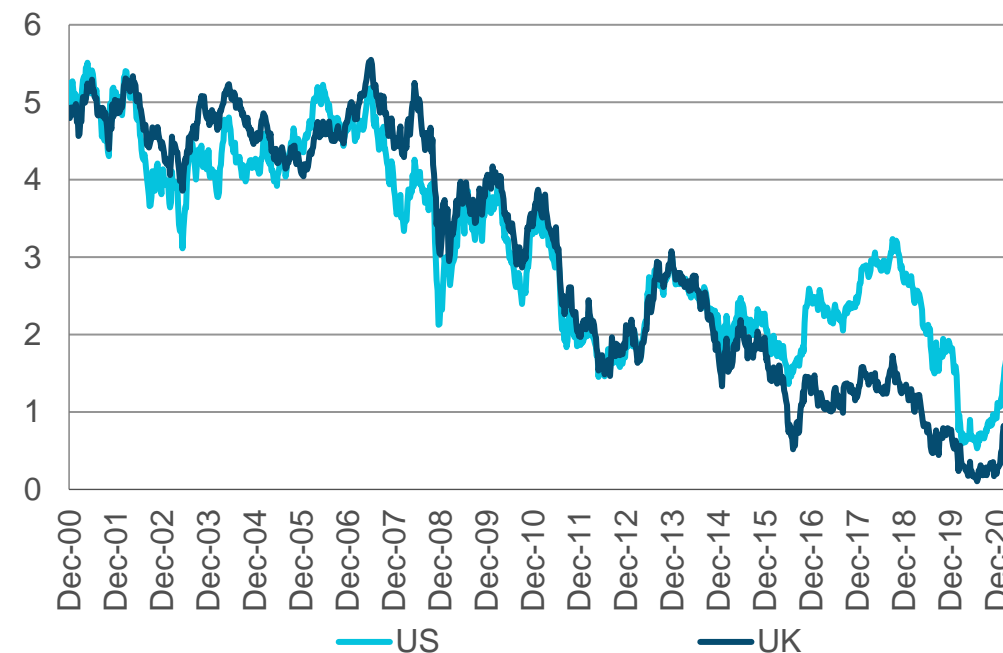


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Sources: Bureau of Labor Statistics, Bloomberg generic constant maturity yields.
Please refer to the additional disclosures for further source information.

0.94 The correlation between
U.S. and UK 10-year yields

%, Yield





The Fed doesn't Seem to Care... Yet


As of 30 Jun 2021



If we ended up with a slightly higher interest rate environment it would actually be a plus for society's point of view and the Fed's point of view

Former Chairman of the Federal Reserve and U.S. Treasury Secretary Janet Yellen:

G7 Summit Bloomberg Interview, 06 Jun 2021



Officials have indicated that they won't raise short-term interest rates from their current near-zero level until three conditions are met....This means monetary policy will remain loose until overheating begins

Former President of the Federal Reserve Bank of New York Bill Dudley

Bloomberg Article, "The Federal Reserve Is Risking Another Recession", 06 Jun 2021

Source: G7 Summit Bloomberg Interview, 06 Jun 2021 and Bloomberg article 06 Jun 2021



Are Central Banks Mandates Shifting?

As of 30 Jun 2021



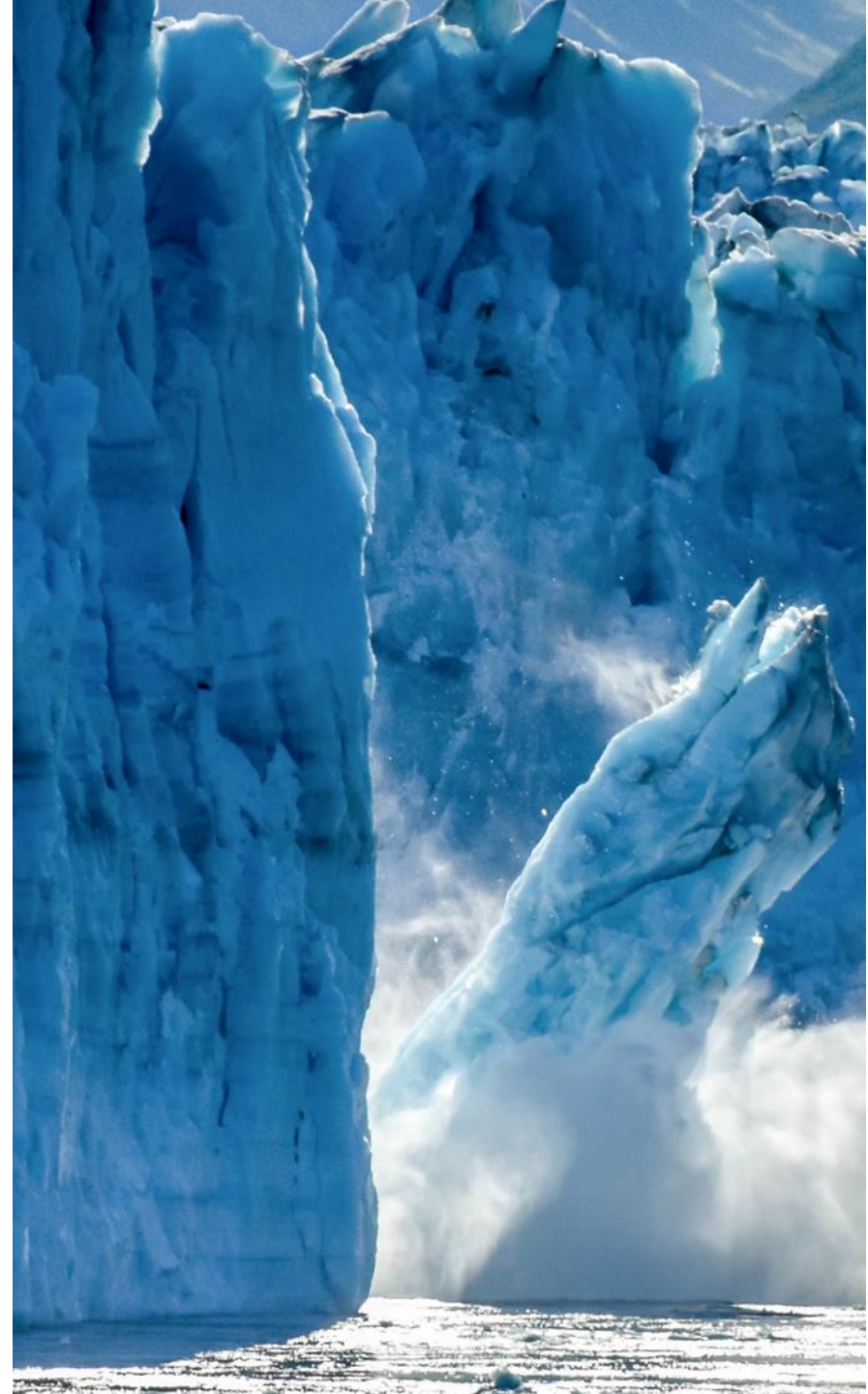
CENTRAL BANK INDEPENDENCE WILL BE TESTED OVER THE NEXT FEW YEARS

And the expansion of central-bank mandates into areas of policy which are naturally the domain of elected politicians — such as targeting unemployment rates of particular groups in society or using monetary-policy tools to combat climate change — will compound the problem

Former Governor of the Bank of England Mervyn King:

Bloomberg Article, “Make No Mistake, the Risk of Inflation Is Real”,
07 Jun 2021

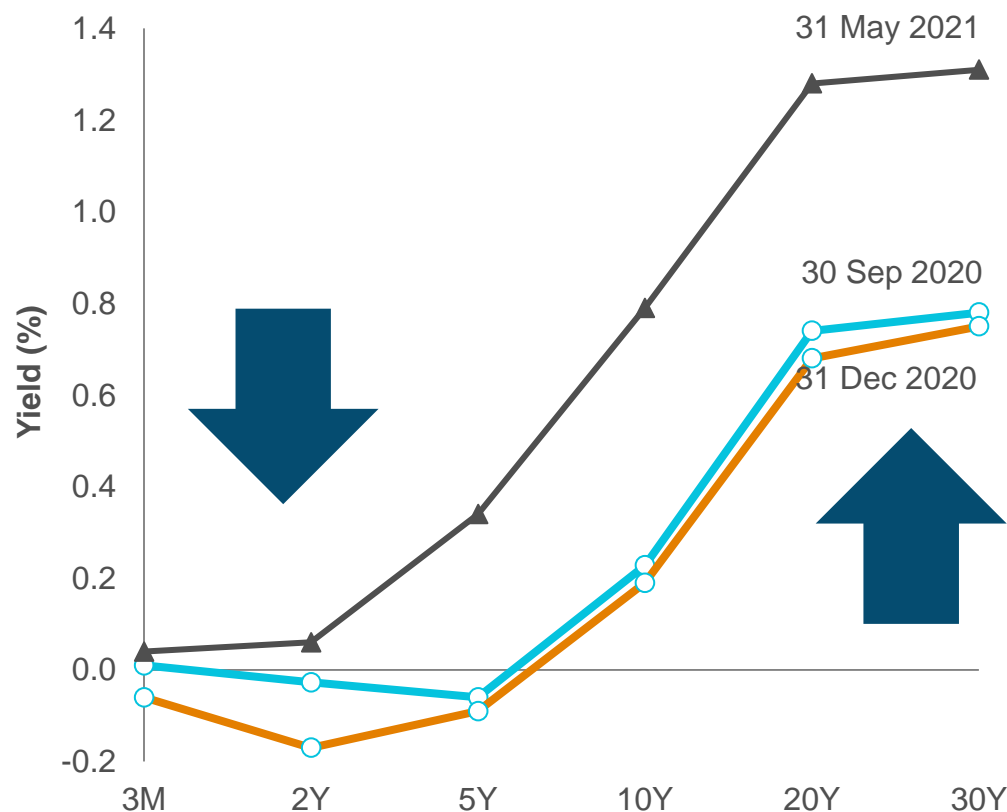
Source: Bloomberg article 07 Jun 2021



Consequence: Higher Interest Rates Not Necessarily a Bad Thing

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UK YIELD CURVE



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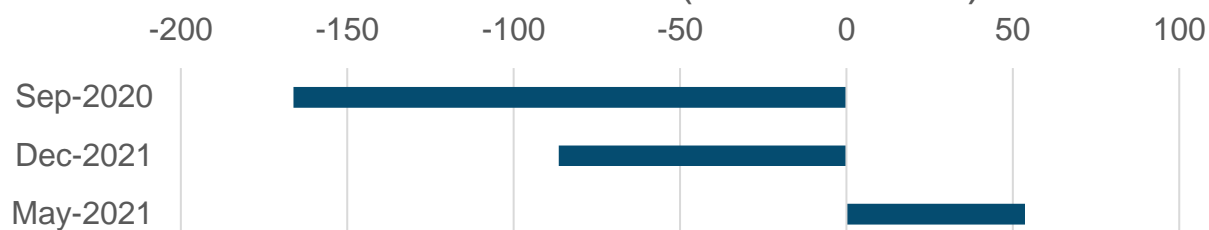
Bloomberg generic constant maturity yields,

PPF 7800 index

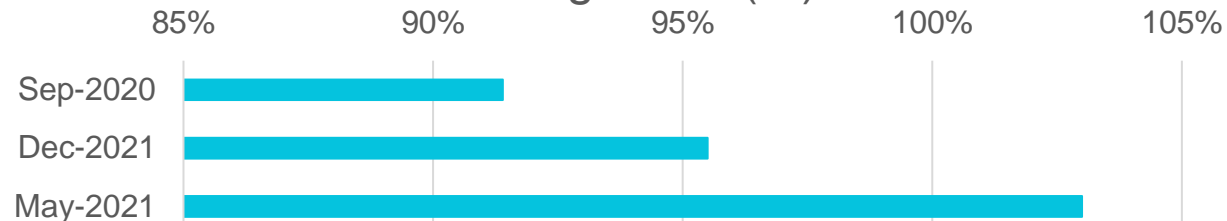
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PENSION PROTECTION FUND STATS

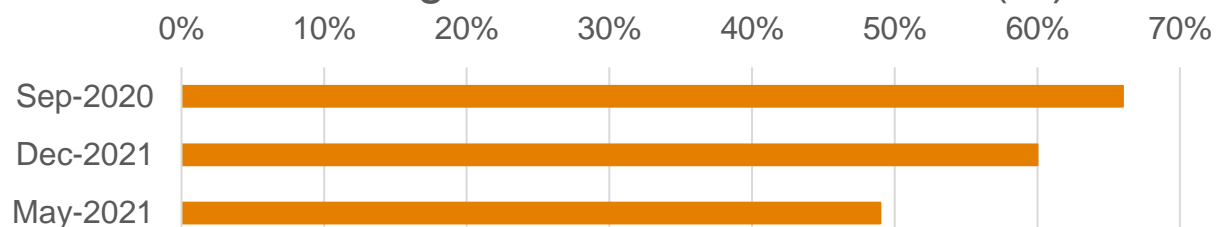
Assets vs. Liabilities (GBP Billions)



Funding Level (%)



Percentage of Schemes in Deficits (%)



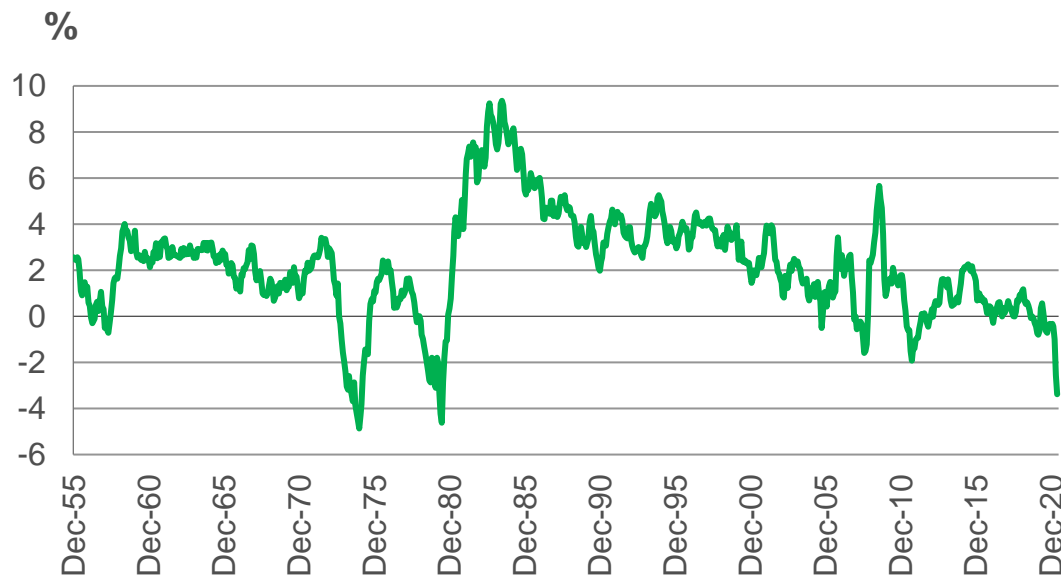
But Bond Holders Risk Being Taxed Via Excessive Inflation

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U.S. 10-YEAR YIELDS VS INFLATION



DIFFERENTIAL (=REAL YIELD)



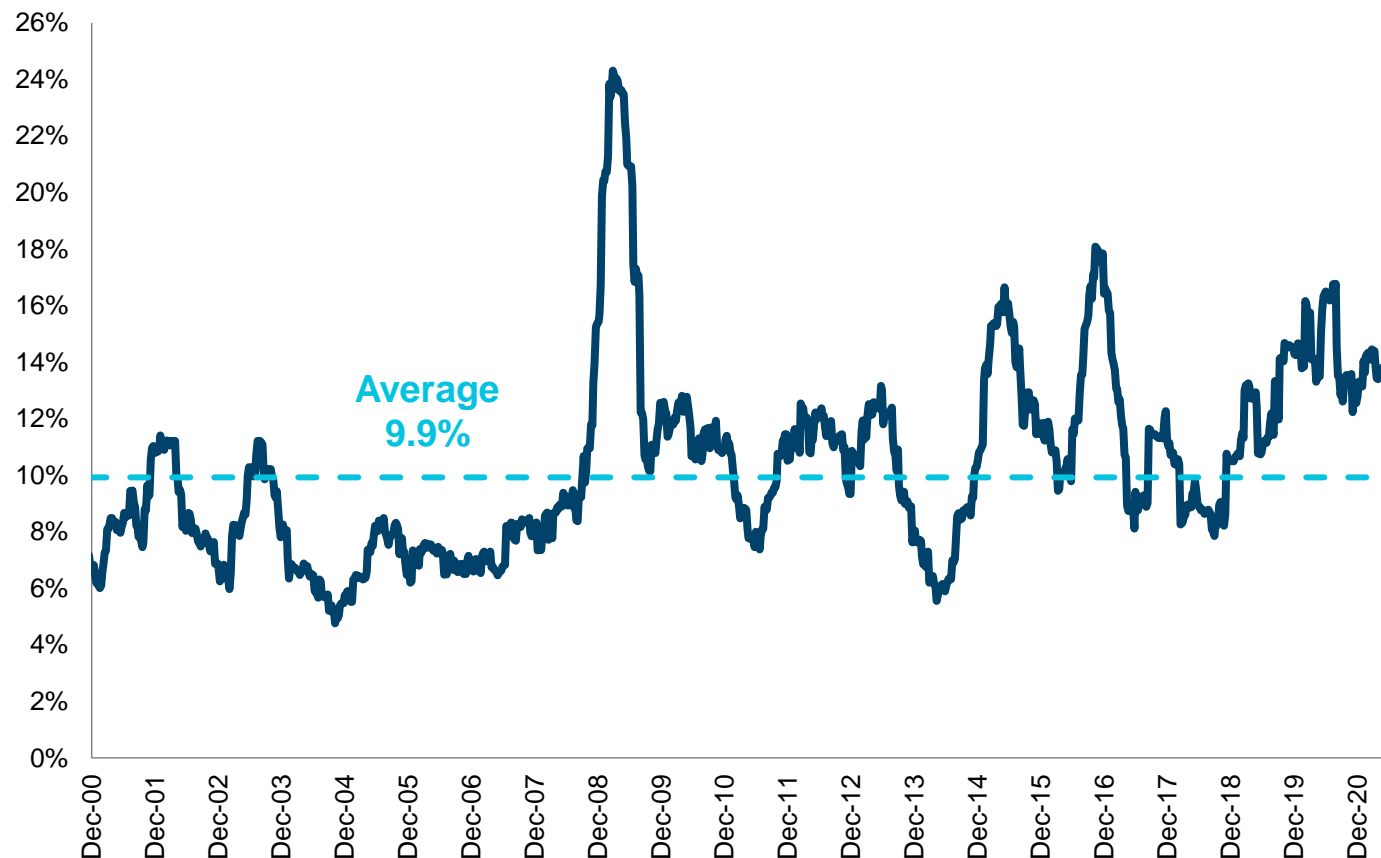
Past performance is not a reliable indicator of future performance.

Bloomberg generic constant maturity yields, Bureau of Labor Statistics
Please refer to the additional disclosures for further source information.

Expect More Bond Price Uncertainty

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15-YR+ GILT PRICE ROLLING VOLATILITY (26 WEEKS)



Past performance is not a reliable indicator of future performance.

Source: ICE BoA UK Gilt 15-Year Plus Index

Please refer to the additional disclosures for further source information.



Managing Duration to Better Control Surprises is Key

As of 30 Jun 2021

VIA INCREASED USE OF...



Active Duration Management

- ☐ Outright duration
- ☐ Curve trades
- ☐ Extended universe



Inflation Protection

- ☐ Inflation-linked bonds
- ☐ Inflation swaps



Hedges Around Black Swan Events

- ☐ Option strategies
- ☐ Volatility skew

**Having the correct fixed income toolkit
To control future returns**



THANK YOU



Additional disclosures

Additional Disclosures

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