

Corporate bonds resurgent in March

After a volatile start to the year, fixed income returns bounced back in spectacular fashion with corporate and emerging market bonds leading the way.

- Global high yield bonds rallied, reversing the losses accumulated during the first two months of the year
- [Markit iBoxx GEMX Brazil index](#) has returned 9.2% so far this year, gaining 5.5% in March
- Investment grade corporate bond ETFs made up \$6.1bn of the \$12.9bn of inflows into fixed income ETFs in March

Market overview

The European Central Bank's (ECB) decision to [cut interest rates and increase the size of its QE programme](#) set the tone for market sentiment in March, in what was the best month for fixed income assets since last October.

The positive sentiment was amplified by dovish comments from US Federal Reserve Chair Janet Yellen and a pickup in crude oil and commodity prices during the month, which boded well for risky assets.

Sovereigns subdued

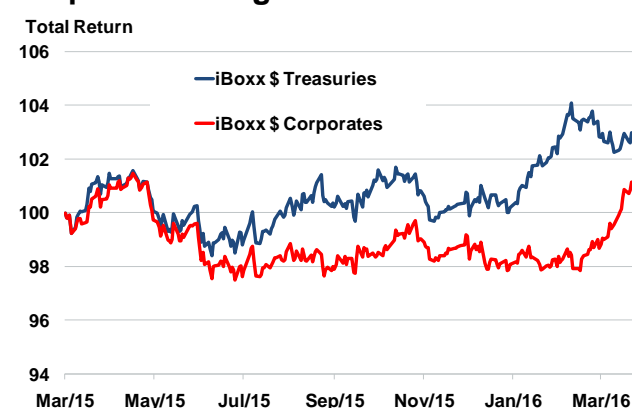
Unsurprisingly, developed nation government bonds underperformed in March as investor confidence in riskier assets re-emerged. According to [Markit's iBoxx indices](#), US treasuries returned 0.1% on a total return basis, outperforming safe haven peers UK gilts (-0.1%) and German bunds (-0.3%). Peripheral European government bonds fared slightly better with Italian government bonds the stand out, returning 1.1% in March.

Inflation linkers march on

Bonds protected by rising inflation continued to reward investors as future inflation expectations were spurred on by rising commodity and crude oil prices. UK inflation linked gilts have now returned 6.1% so far this year; while US treasury inflation protected securities (TIPS) have returned 5.1% adding 1.8% in March. A dovish Fed may also have

proven a catalyst for the strong performance during the month, as investors anticipate reflation on the horizon.

Corporate's surge



Calmer global financial markets, further central bank accommodation, a rise in commodity prices and little negative news coming from China provided the perfect mix for risky assets to rally aggressively in March.

High yield (HY) bonds in dollars (US), sterling (UK) and euros (EU) all returned over 3%, reversing the losses accumulated during the first two months of the year. Investment grade (IG) bonds in the UK returned 3.1% in March, and US IG has now returned 3.7% so far this year, the best performing asset class among developed nation corporate bonds.

Broad based rally

March's broad based rally in corporate bonds saw numerous sectors post sizable returns. In

dollars, the pickup in commodity prices saw the Basic Materials and Oil & Gas sectors return 4.1% and 5.5%, respectively. The Markit iBoxx \$ Telecoms index also saw a 4% return in March, making it the stand out sector so far this year. European corporates were buoyed by the ECB's decision to extend QE to non-bank corporate bonds, seeing risk in the sector decline, boosting returns in the process.

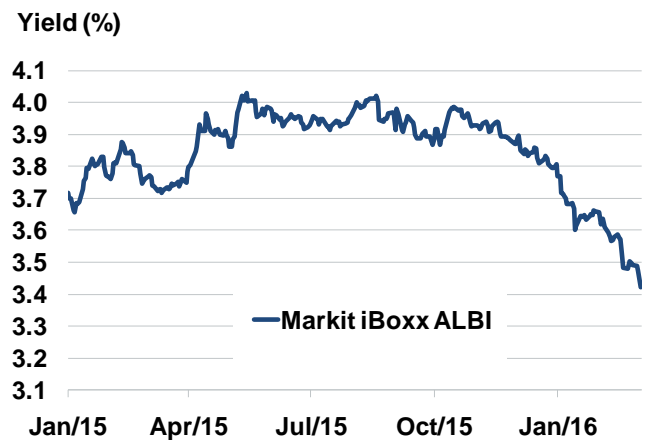
The Markit iBoxx € Insurance index returned 3.1% in March, a relief rally after talks of further negative interest rates faded. Contingent convertible bonds also saw returns surge as European banking fears eased.

Brazil leads EM

Recovering currencies against the US dollar and a better fiscal outlook thanks to higher commodity prices brought confidence back to emerging market bonds. Dollar denominated sovereign and corporate emerging market bonds returned 2.8% and 3.1% in March, respectively. In local currencies, the stand out performer was Brazil, with the Markit iBoxx GEMX Brazil index gaining 5.5% on a total return basis in March. Higher commodity prices and the prospect of the removal of President Dilma Rouseff ([who is entangled in a political scandal](#)) have seen investors dip back into market.

Asian bonds soar

Local currency Asian bonds have seen their yields continue to slide to new 12-month lows. The Markit iBoxx ALBI index now yields 3.4%, 60bps lower than in October last year.



Returns have subsequently been outstanding this year, with Asian US dollar denominated HY and IG bonds returning over 6% and 4%, respectively, so far this year.

Fixed income ETFs

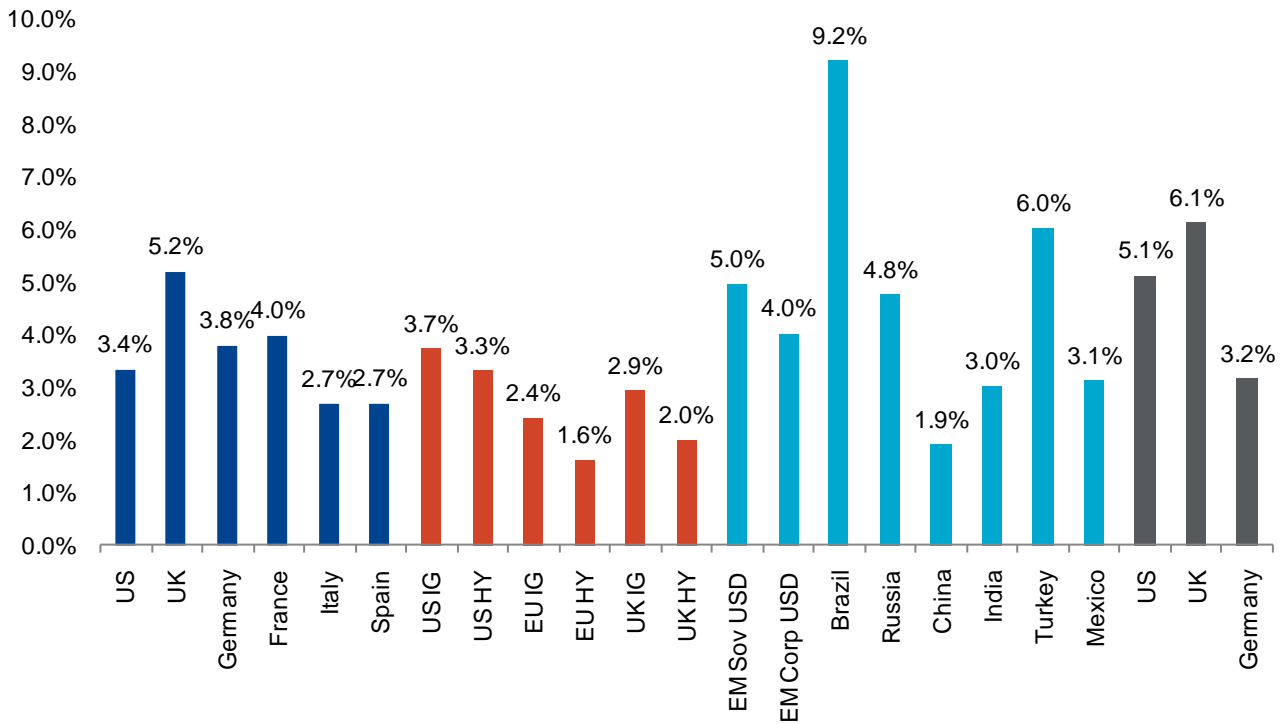
ETF investors have been eager to ride a resurgence of corporate bonds as both IG and HY ETFs have seen the largest inflows over March. Investor's appetite has been strong on both ends of the Atlantic as both European and North American listed funds have seen these strong inflows into both types of corporate bond ETFs. IG corporate bond ETFs made up \$6.1bn of the \$12.9bn of inflows into fixed income ETFs in March

Despite the recent selloff in government bond ETFs, the asset class is still the most popular in terms of total flows since the start of the year. Year to date inflows into government bond funds now stand at \$12.7bn, 50% more than the inflows garnered by the second most popular asset class which is broad market ETFs that invest in both corporate and sovereign bonds.

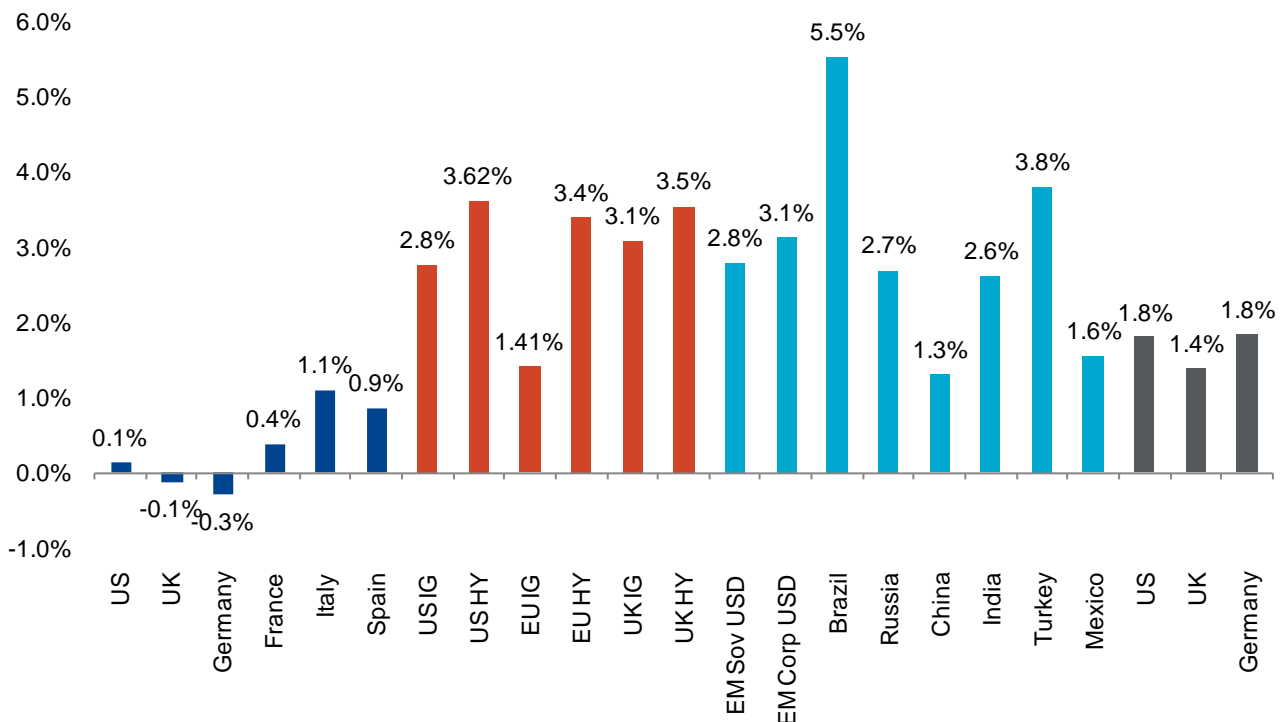
The one exception to the trend has been inflation linked sovereign bond funds which have seen \$1.5bn of inflows over March, doubling their year to date tally.

Asset class overview
Sovereign (unless stated)

Year to date



March 2016



Tables - Euros

Markit iBoxx Index	Total Return		Yield			OAS		Bonds	Duration	
	Month	YTD	Current	Month	YTD	Current	Month			YTD
€ Overall	0.53%	2.95%	0.82%	-0.06%	-0.40%	69.3	-10.6	5.7	3,252	6.5
Sovereigns										
€ Germany	-0.29%	3.81%	0.27%	0.04%	-0.47%	0.9	0.5	1.5	52	7.5
€ France	0.38%	4.00%	0.64%	-0.03%	-0.45%	38.4	-7.7	3.7	43	7.7
€ Italy	1.11%	2.69%	1.36%	-0.11%	-0.30%	116.7	-16.8	18.2	63	7.0
€ Spain	0.86%	2.72%	1.40%	-0.10%	-0.34%	128.2	-15.0	13.5	36	6.5
€ Portugal	0.43%	-1.26%	2.65%	-0.03%	0.33%	258.1	-7.8	80.4	13	6.1
€ Ireland	0.66%	2.50%	0.68%	-0.08%	-0.32%	61.4	-13.9	10.5	13	6.3
Corporates										
€ Corporates	1.41%	2.43%	1.38%	-0.25%	-0.40%	153.0	-31.2	-0.5	1,712	5.1
€ Corporates A	1.06%	2.29%	1.10%	-0.18%	-0.38%	125.2	-23.8	1.8	707	5.1
€ Corporates AA	0.79%	2.82%	0.82%	-0.13%	-0.47%	89.4	-18.1	-4.0	172	5.5
€ Corporates AAA	0.39%	3.56%	0.94%	-0.04%	-0.44%	81.2	-7.8	5.1	5	7.2
€ Corporates BBB	1.94%	2.43%	1.85%	-0.36%	-0.42%	202.4	-42.6	-2.9	828	4.9
€ Financials	1.10%	1.38%	1.49%	-0.21%	-0.22%	170.6	-27.0	14.4	638	4.5
€ Banks	0.77%	1.19%	1.17%	-0.15%	-0.20%	143.8	-21.9	14.5	435	4.2
€ Insurance	3.09%	1.31%	3.14%	-0.45%	-0.11%	321.9	-50.3	34.3	85	6.1
€ Non-Financials	1.64%	3.22%	1.32%	-0.28%	-0.51%	142.3	-33.7	-9.6	1074	5.5
€ Basic Materials	2.15%	5.66%	1.76%	-0.78%	-1.42%	189.7	-85.8	-105.5	69	5.1
€ Consumer Goods	1.24%	3.00%	1.17%	-0.21%	-0.49%	127.0	-26.1	-7.5	224	5.3
€ Consumer Services	1.87%	3.35%	1.57%	-0.18%	-0.39%	169.4	-22.7	5.6	82	5.8
€ Health Care	0.93%	3.01%	1.09%	-0.14%	-0.46%	117.7	-18.7	-1.8	53	5.8
€ Industrials	1.10%	2.69%	1.04%	-0.16%	-0.43%	120.9	-22.8	-4.3	177	5.0
€ Oil & Gas	2.96%	3.87%	1.62%	-0.48%	-0.54%	168.2	-53.7	-10.3	87	5.9
€ Technology	0.89%	3.80%	0.94%	-0.11%	-0.48%	94.7	-14.9	1.8	22	7.0
€ Telecommunications	1.45%	3.19%	1.44%	-0.20%	-0.45%	149.0	-25.7	-2.2	117	5.8
€ Utilities	1.99%	2.80%	1.34%	-0.33%	-0.44%	146.8	-39.2	-2.9	243	5.2
€ Covered	0.10%	1.66%	0.40%	-0.01%	-0.32%	61.0	-7.5	4.6	712	4.6
High Yield										
€ High Yield	3.40%	1.63%	4.98%	-0.80%	-0.32%	528.9	-85.9	6.7	520	3.5
€ High Yield B	3.69%	0.99%	6.99%	-0.76%	-0.47%	729.0	-78.6	-13.8	186	3.1
€ High Yield BB	3.29%	2.16%	4.04%	-0.67%	-0.32%	430.2	-74.1	4.8	302	3.7
€ High Yield CCC	3.10%	-4.15%	13.20%	-1.63%	0.37%	1333.7	-165.2	57.9	31	2.9
Inflation-linked										
€ France Inflation-Linked	2.50%	3.35%	-0.55%	-0.31%	-0.42%	0.0	0.0	0.0	19	7.7
€ Germany Inflation-Linked	1.84%	3.17%	-0.74%	-0.24%	-0.42%	0.0	0.0	0.0	6	7.5
€ Italy Inflation-Linked	3.40%	1.79%	0.50%	-0.42%	-0.20%	0.0	0.0	0.0	10	7.8
ABS										
Europe ABS	1.62%	6.45%							788	
Contingent Convertible										
€ Contingent Convertible	3.99%	-4.35%	7.43%	-0.84%	1.64%				30	4.1

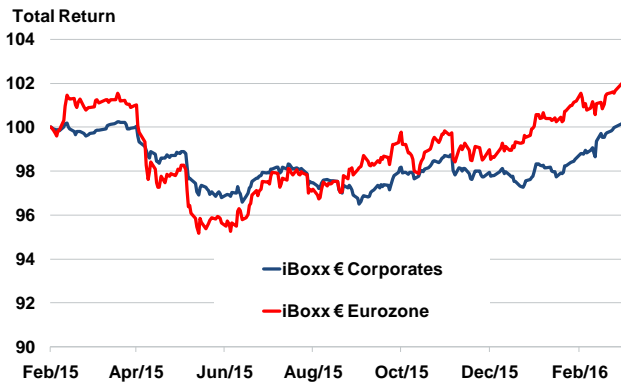
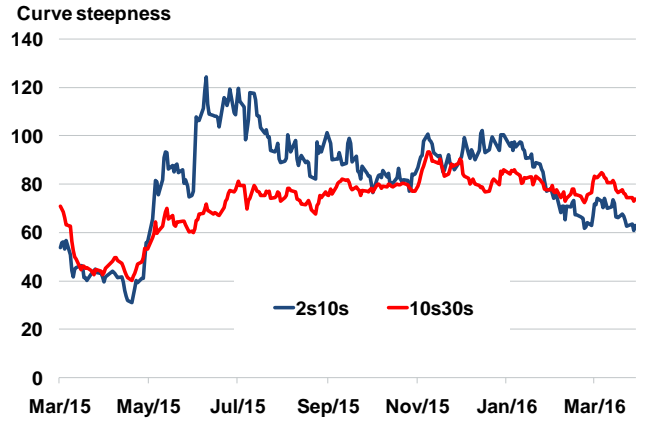
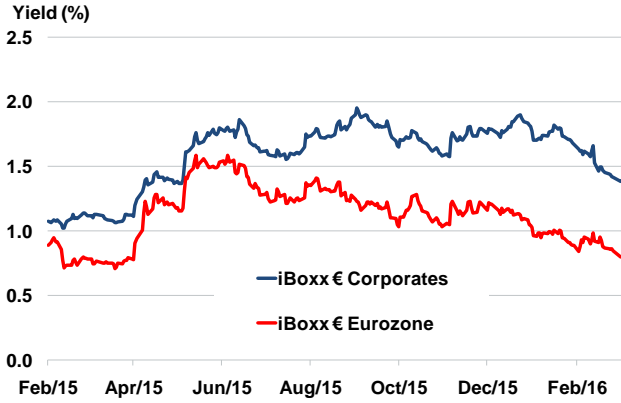
US dollar

Markit iBoxx Index	Total Return			Yield			OAS			Bonds	Duration
	Month	YTD	Current	Month	YTD	Current	Month	YTD			
\$ Overall	0.76%	3.15%	2.65%	-0.08%	-0.42%	77.3	-10.9	-0.5	5932	6.2	
Sovereigns											
\$ Treasuries	-0.09%	3.12%	1.92%	0.03%	-0.40%	2.3	1.0	1.0	254	6.3	
\$ Treasuries 1-3Y	0.11%	0.83%	0.79%	-0.01%	-0.30%	4.3	1.2	1.2	91	1.8	
\$ Treasuries 3-5Y	0.13%	2.24%	1.13%	0.01%	-0.47%	-0.4	-1.0	0.5	61	3.8	
\$ Treasuries 5-7Y	-0.06%	3.35%	1.45%	0.05%	-0.50%	1.7	-0.4	4.1	39	5.5	
\$ Treasuries 7-10Y	-0.36%	4.26%	1.73%	0.08%	-0.48%	2.3	1.4	3.9	18	7.6	
\$ Treasuries 10-15Y	-0.23%	4.96%	1.97%	0.07%	-0.45%	1.3	-1.8	-2.7	11	9.5	
\$ Treasuries 15Y+	-0.65%	7.78%	2.56%	0.06%	-0.40%	3.1	2.1	-0.5	34	17.6	
Corporates											
\$ Corporates	2.44%	3.41%	3.93%	-0.32%	-0.42%	201.7	-37.0	0.0	4,703	6.6	
\$ Corporates A	1.72%	3.09%	3.49%	-0.22%	-0.33%	160.6	-27.4	7.1	1950	6.4	
\$ Corporates AA	1.60%	3.15%	3.14%	-0.20%	-0.42%	126.9	-25.0	0.4	498	6.1	
\$ Corporates AAA	1.14%	4.03%	3.29%	-0.09%	-0.34%	115.4	-13.2	7.3	66	8.7	
\$ Corporates BBB	3.53%	3.83%	4.58%	-0.44%	-0.48%	265.9	-49.9	-4.3	2189	6.9	
\$ Banks	1.35%	1.74%	3.52%	-0.21%	-0.20%	191.5	-24.7	24.8	983	4.8	
\$ Basic Materials	4.09%	5.53%	4.97%	-0.63%	-1.09%	306.0	-70.8	-68.2	224	6.9	
\$ Consumer Goods	1.90%	3.97%	3.47%	-0.23%	-0.41%	158.0	-27.2	-3.8	444	6.3	
\$ Consumer Services	3.15%	5.03%	3.98%	-0.33%	-0.50%	191.6	-38.3	-7.4	420	8.3	
\$ Financials	1.45%	1.96%	3.62%	-0.20%	-0.22%	193.2	-24.9	21.7	1565	5.2	
\$ Health Care	2.23%	4.42%	3.52%	-0.24%	-0.44%	151.1	-28.9	-1.6	374	7.6	
\$ Industrials	1.78%	3.90%	3.64%	-0.22%	-0.46%	163.3	-26.6	-4.0	393	7.3	
\$ Insurance	2.07%	2.18%	4.27%	-0.22%	-0.18%	227.9	-27.3	26.7	219	7.5	
\$ Non-Financials	3.01%	4.24%	4.05%	-0.37%	-0.51%	205.1	-42.2	-9.4	3138	7.4	
\$ Oil & Gas	5.53%	3.35%	5.07%	-0.80%	-0.46%	316.5	-87.8	-2.4	562	6.8	
\$ Technology	1.93%	3.85%	3.45%	-0.24%	-0.45%	151.9	-29.0	-1.1	229	6.9	
\$ Telecommunications	3.96%	5.49%	4.29%	-0.40%	-0.50%	216.5	-46.6	-8.7	160	8.7	
\$ Utilities	2.05%	4.15%	4.21%	-0.19%	-0.38%	211.1	-24.1	3.5	332	8.4	
High Yield											
\$ Liquid High Yield	3.28%	2.98%	7.70%	-0.48%	-0.41%	622.4	-50.5	9.1	971	4.0	
Inflation-linked											
\$ TIPS Inflation-Linked	1.51%	4.83%	0.37%	-0.16%	-0.54%	0.0	0.0	0.0	37	8.4	
Emerging Markets											
\$ EM Sovereigns	2.58%	4.76%	5.31%	-0.28%	-0.48%	340.8	-33.9	-5.4	328	7.1	
\$ EM Corporates	2.84%	3.74%	5.83%	-0.47%	-0.56%	423.1	-51.8	-11.2	1363	4.5	
Loans											
\$ Leveraged Loans	2.74%	1.42%							1230		
RMBS											
\$ US RMBS Seniors	0.25%	-0.63%							302		
Convertible											
\$ CVBX	2.50%	-4.02%	1.12%	-0.62%	0.21%				96	6.3	
Contingent Convertible											
\$ Contingent Convertible	4.68%	-2.02%	7.98%	-0.83%	0.85%				51	4.6	

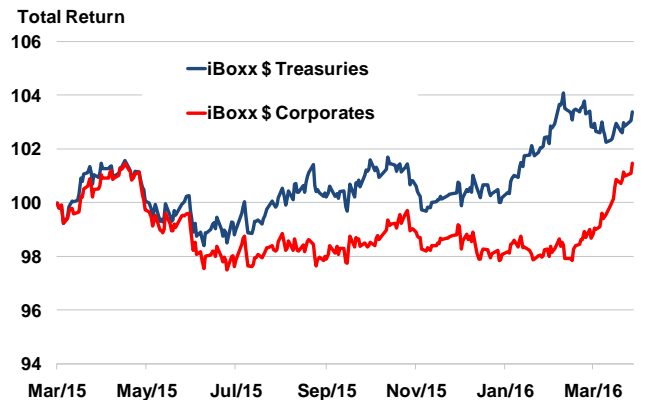
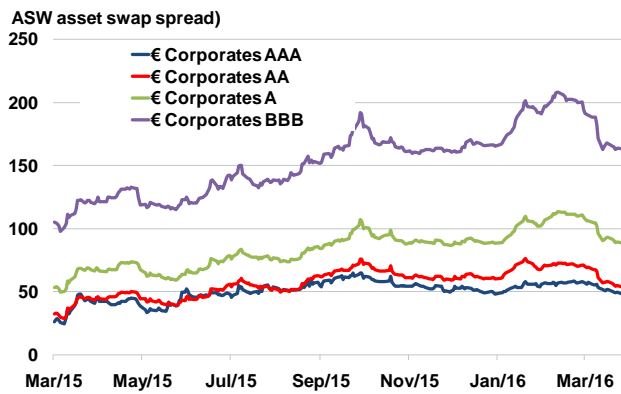
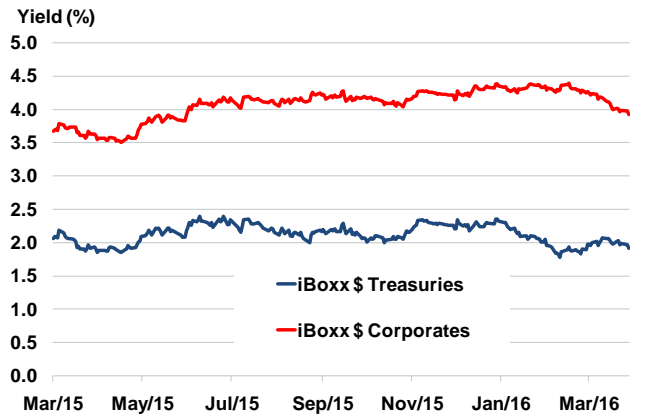
Sterling

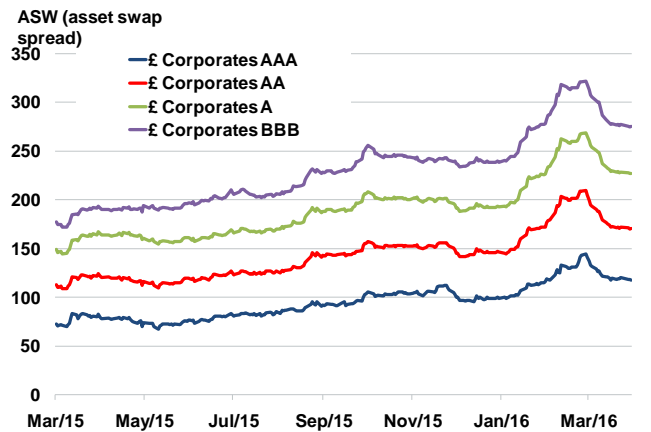
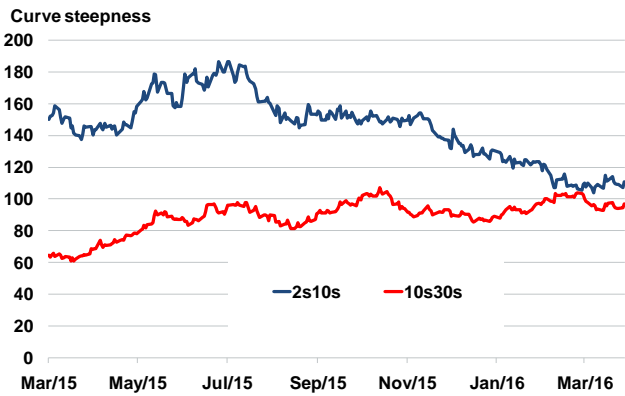
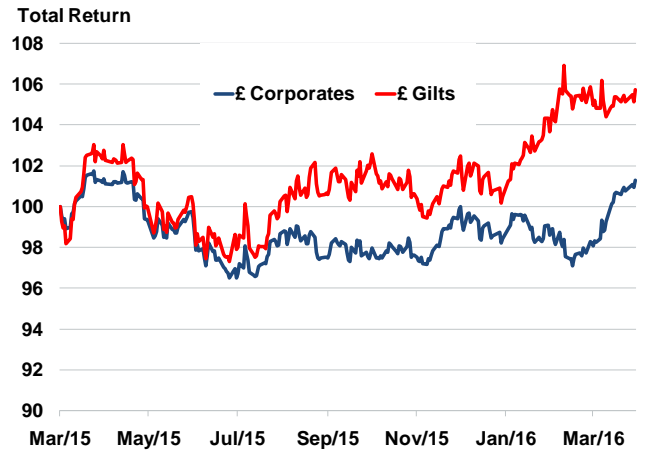
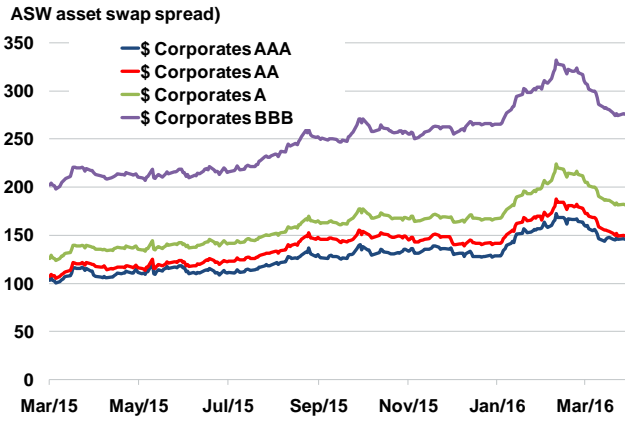
Markit iBoxx Index	Total Return		Yield			OAS			Bonds	Duration
	Month	YTD	Current	Month	YTD	Current	Month	YTD		
£ Overall	0.51%	4.61%	2.23%	-0.01%	-0.41%	38.7	-5.1	2.0	1058	10.1
Sovereigns										
£ Gilts	-0.12%	5.23%	1.89%	0.03%	-0.42%	-0.1	0.0	0.0	39	11.0
£ Gilts 1-3	-0.11%	0.73%	0.37%	0.07%	-0.34%	26.2	2.3	16.5	4	1.8
£ Gilts 3-5	-0.29%	2.34%	0.62%	0.10%	-0.56%	-0.6	0.3	-1.1	7	3.6
£ Gilts 5-7	-0.49%	3.50%	0.90%	0.11%	-0.60%	-11.7	-0.2	-3.6	4	5.2
£ Gilts 7-10	-0.54%	4.73%	1.31%	0.09%	-0.56%	-9.3	-1.6	-2.2	4	7.6
£ Gilts 10-15	-0.55%	5.57%	1.71%	0.06%	-0.40%	-2.0	0.2	2.6	4	10.3
£ Gilts 15+	0.24%	8.30%	2.18%	0.00%	-0.39%	1.4	0.1	0.1	16	18.8
Corporates										
£ Corporates	3.08%	2.94%	3.67%	-0.33%	-0.27%	201.5	-41.3	19.0	693	8.0
£ Corporates A	3.18%	3.00%	3.57%	-0.32%	-0.26%	184.5	-38.8	20.1	273	8.6
£ Corporates AA	2.42%	3.73%	2.98%	-0.24%	-0.36%	123.1	-32.0	9.5	80	8.9
£ Corporates AAA	1.92%	6.97%	2.55%	-0.12%	-0.43%	53.0	-13.7	-1.0	5	14.4
£ Corporates BBB	3.20%	2.65%	4.04%	-0.38%	-0.23%	248.4	-46.5	24.3	335	7.2
£ Banks	3.08%	1.30%	3.70%	-0.39%	-0.06%	224.9	-48.9	42.6	148	6.3
£ Basic Materials	5.49%	7.61%	4.41%	-0.80%	-0.97%	283.2	-92.6	-53.0	10	7.0
£ Consumer Goods	1.70%	3.33%	2.87%	-0.24%	-0.48%	149.9	-33.2	0.7	59	5.7
£ Consumer Services	2.50%	4.01%	3.44%	-0.26%	-0.36%	166.2	-34.4	5.8	56	9.4
£ Financials	3.08%	1.39%	3.88%	-0.37%	-0.08%	236.3	-46.1	39.9	287	6.8
£ Health Care	3.78%	6.07%	3.31%	-0.28%	-0.42%	133.9	-32.8	1.9	12	12.3
£ Industrials	2.66%	4.25%	3.28%	-0.28%	-0.38%	157.8	-35.0	7.2	43	8.6
£ Insurance	4.15%	-0.27%	5.00%	-0.54%	0.16%	350.7	-63.7	66.9	71	6.8
£ Non-Financials	3.08%	3.98%	3.57%	-0.31%	-0.36%	184.0	-38.6	8.9	406	8.8
£ Oil & Gas	2.64%	1.91%	3.25%	-0.35%	-0.18%	172.5	-43.6	29.6	19	6.6
£ Telecommunications	4.07%	4.54%	3.80%	-0.43%	-0.40%	206.3	-50.3	4.6	43	8.7
£ Utilities	3.24%	3.60%	3.79%	-0.29%	-0.29%	201.4	-36.0	16.7	160	9.6
Collateralized										
£ Collateralized	0.81%	3.84%	3.24%	-0.05%	-0.34%	152.5	-12.1	12.3	162	9.0
£ Covered	-0.22%	3.47%	2.32%	0.06%	-0.42%	93.2	-3.1	10.4	22	6.9
£ ABS	0.78%	2.97%	3.46%	-0.06%	-0.24%	175.6	-12.0	22.2	31	8.8
£ MBS	0.57%	3.72%	3.13%	-0.03%	-0.39%	155.5	-11.9	6.8	38	7.8
£ Housing Associations	2.62%	5.83%	3.69%	-0.16%	-0.34%	159.5	-18.5	7.9	42	14.5
High Yield										
£ High Yield	3.55%	2.01%	6.08%	-0.83%	-0.03%	496.5	-96.7	42.7	41	3.7
Inflation-linked										
£ Gilt Inflation-Linked	1.39%	6.14%	-0.96%	-0.06%	-0.27%	0.0	0.0	0.0	26	23.4
Contingent Convertible										
£ Contingent Convertible	1.29%	2.76%	7.62%	-0.13%	0.86%	0.0	0.0	0.0	8	5.6

Charts – Euros

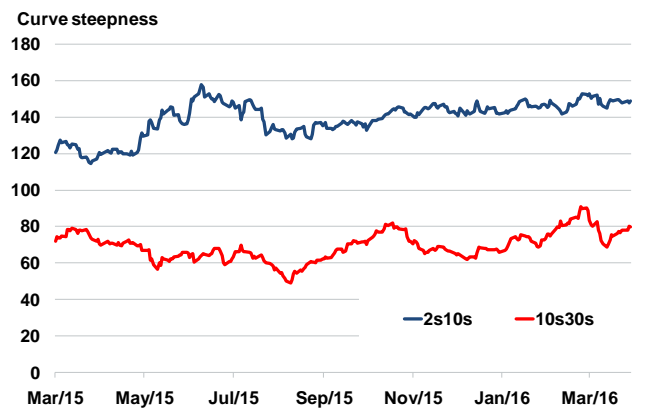
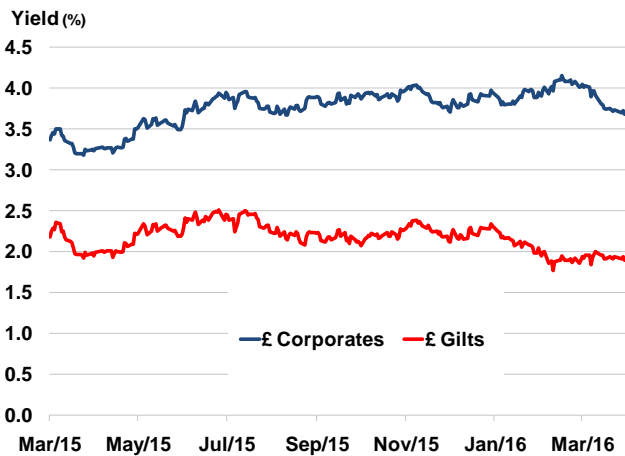


US dollar

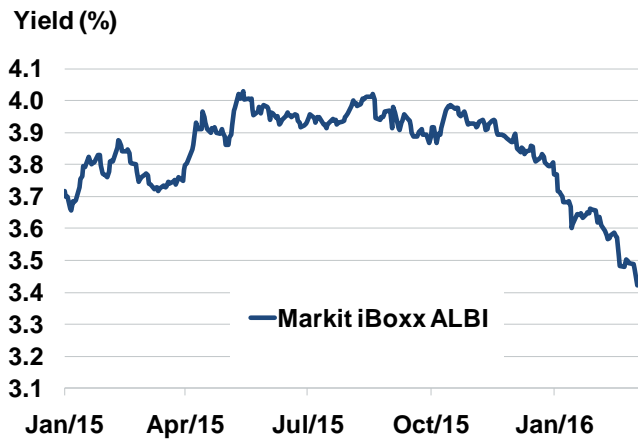
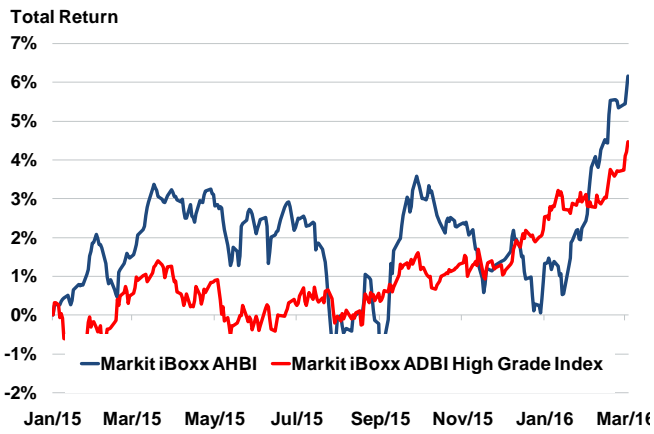
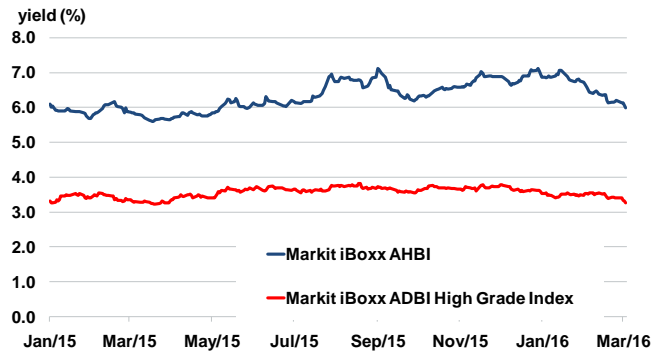




Sterling



Asia



Fixed Income ETF flows (\$m)

Type	Mar-16				YTD			
	Europe*	USA*	Asia*	Total	Europe*	USA*	Asia*	Total
Broad Market	471	3,351	5	3,826	552	8,245	45	8,841
Sovereigns	157	(3,324)	26	(3,142)	4,028	9,011	(355)	12,685
Sub-Sovereigns	0	473	0	473	0	1,881	21	1,902
Corporates IG	3,394	2,723	0	6,117	2,946	5,149	4	8,099
Covered	218	0	0	218	326	(1)	0	325
Convertible	107	(140)	0	(33)	140	(308)	0	(168)
High Yield	1,755	3,475	(2)	5,229	1,548	5,284	3	6,835
Loans	0	0	0	0	0	0	0	0
Asset Backed	0	289	0	289	0	521	0	521
CDS	69	0	0	69	60	(8)	0	53
Inflation	413	1,126	2	1,542	1,204	1,847	4	3,055
Money Market	(160)	0	(2,211)	(2,371)	(103)	0	(773)	(876)
Preferred Stock	0	645	12	657	0	1,161	(20)	1,141
Yield-Curve Strategy	0	0	0	0	0	0	0	0
Total	6,424	8,619	(2,169)	12,874	10,701	32,782	(1,071)	42,412

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