

Fed fails to halt US corporate bond appeal

Yesterday's FOMC meeting saw bonds retreat, but investors continued their corporate bond binge.

- Markit iBoxx \$ Treasuries fell by 30bps as its yield rose by 5bps
- Dollar investment grade bonds on track for best monthly performance since January
- Corporate bonds ETFs have seen the largest inflows on record in October

Bonds sold off across the board yesterday as the press release [issued](#) in the wake of the Federal Open Market Committee (FOMC) meeting signalled that the US rate setting body was willing to raise interest rates in December, should the labour market and inflation picture warrant it. This selloff saw the yield in 10 year US treasuries rise by 4bps to 2.1%.

US Treasury Yields



These shifts in benchmark US interest rates saw the Markit iBoxx \$ Treasuries index yield rise by 5bps to 2.1%. The rise in yield meant that the index total returns fell by 30bps on the day; marking the third such fall in the index for October and takes the index back to an even keel for the month. The selloff hit treasuries-tracking ETFs, with investors withdrawing \$136m of assets from funds which track government bonds on Wednesday; the fifth straight day of outflows. These outflows have taken the withdrawals seen by these funds past the \$750 m mark, the largest outflow since May.

Corporates continue their form

While corporate bonds also fell on the day, the Markit iBoxx \$ Corporate index which tracks dollar denominated investment grade bonds, mirrored the yield and return changes seen in its treasury peer yesterday. The index spread, which measures the extra yield required by investors to hold the asset class actually fell by around a third of a basis point, helping push this key risk metric over 10bps tighter for October.

iBoxx \$ Corporate Spread

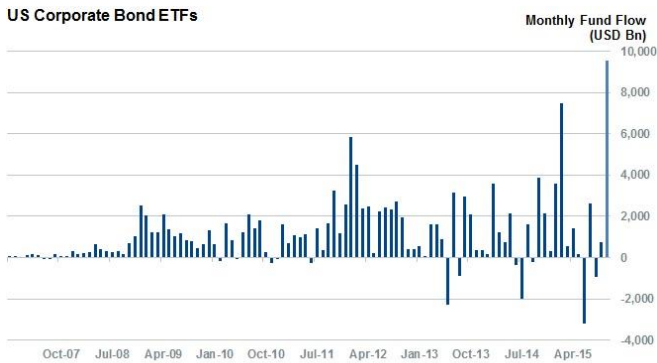


This risk appetite driven rally, coming after spreads [hit](#) a multiyear high in the opening week of October, means that US treasuries are on track for their best month since January. The Markit iBoxx \$ Corporate index has returned 1.1% month to date, even accounting for yesterday's treasury driven slump.

Investors line up for corporate ETFs

The increased investor pragmatism towards corporate bonds has also been mirrored in US exposed corporate bond ETFs. The asset class is on track for its largest monthly inflow on record after investors added over \$9.5bn

of exposure in corporate bonds. This beats the previous record seen in January by a hefty \$2bn.



Corporate bond ETFs also managed to attract more assets over yesterday's selloff as investors bought \$228m of exposure into the asset class. The extra spread offered by investment grade bonds over treasuries is now 40bps higher than at the start of the year and the rotation out of government bonds funds into corporate products demonstrates that this extra yield is proving attractive to investors in the current environment. This trend has been further encouraged as continuation of the Fed's accommodative monetary policy could see a further fall in spreads.

Simon Colvin

Analyst

Markit

Tel: +44 207 260 7614

Email: simon.colvin@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.