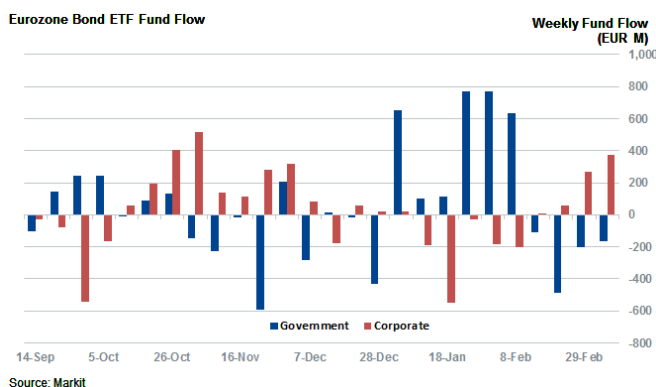


Investors reassess eurozone bonds ahead of ECB news

Investors have been selling off eurozone government bond ETFs and loading up on corporate debt ahead of the ECB meeting tomorrow.

- Investors have sold €960m of eurozone government bond ETFs in the last four weeks
- Corporates have fallen back into favour as credit risk abates from multi-year highs
- Inflation bond ETFs have been the only consistently popular trade of the last two months

Investors have been bidding down eurozone government bond rates to hit new recent lows since the start of the year. But it appears that the asset class's low yields, and the growing associated risks, have turned off investors ahead of Thursday's ECM meeting. This meeting, which is [tipped](#) as a key indicator of the rate setting committee's appetite for further monetary easing in light of the recent setback in global growth, has seen investors sell out of their eurozone government bond ETFs with increased vigour in the weeks leading up to tomorrow's announcement.



These strong outflows, which started in the second week of February, have reached €960m and show no signs of slowing down, as investors withdrew €165m yesterday alone. ECB meetings have sparked plenty of volatility in the past as the bank failed to live up to expectations, and it appears that a growing portion of investors are choosing to sit on the sidelines ahead of Thursday's announcement.

While these outflows represent a setback for the asset class, it's worth noting that the net inflows are still very much positive and the asset class is still sitting on a €2.06bn of net inflows for the year to date.

Corporates back in the fold

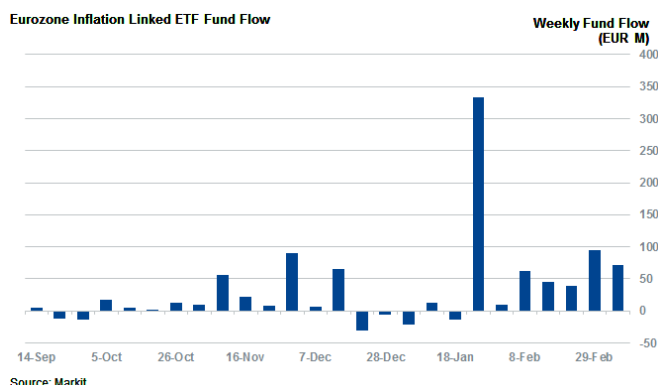
While sovereign bonds ETFs have been actively shunned in the last few weeks, their corporate bond peers have proven much more popular as euro denominated corporate bond ETFs have seen €706m of net inflows in the last four weeks. The asset class now offers a relative higher yield compared to government bonds as well as a lower duration risk, which could explain why investors have warmed to it over the last month. However, these strong inflows have yet to overtake the strong outflows seen in the opening weeks of the year and investors have trimmed €426m of corporate bond holdings year to date.

The extra yield offered by these bonds, which was driven by a surge in credit risk, has also been retreating from the recent highs which has helped them to outperform government bonds since the lows in January.

Inflation linked bonds still popular

While corporate and government bonds have fallen in and out of favour with investors over the last two months, inflation linked bonds have continued to prove popular. ETFs linked to the asset class have seen a record €530m of inflows so far this quarter, and the trade

shows no signs of losing popularity heading into the ECB meeting.



Source: Markit

This should be viewed as a vote of confidence for the ECB as inflation linked bonds stand to outperform should inflation start to pick up in earnest. Inflation has yet to [manifest](#) itself however which has seen the largest inflation linked European government bond fund, the iShares Euro Inflation Linked Government Bond UCITS ETF, underperform its conventional peer, the iShares Core Euro Government Bond UCITS ETF, this year to date. Investors seem to be willing to double down on this losing trade however as seen by the steady strong inflows into inflation linked ETFs.

Simon Colvin

Analyst

Markit

Tel: 207 260 7614

Email: simon.colvin@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.