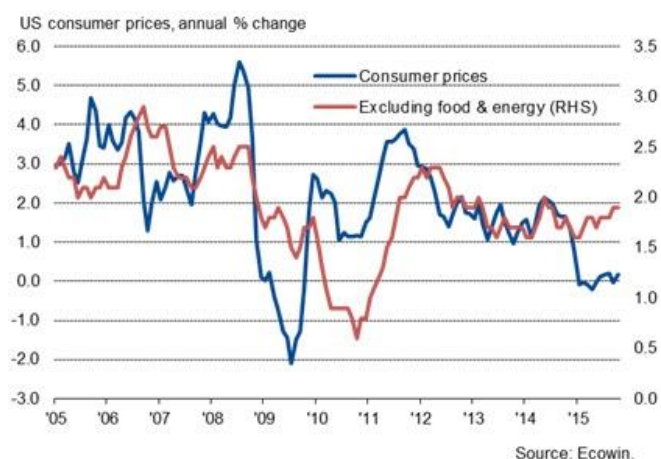


## US investors double down on inflation

TIPS returns since the start of the year have been particularly disappointing; but this has not precluded investors from piling into ETFs tracking the asset class.

- The iBoxx TIPS index has lagged its conventional Treasury peer by 2.4% ytd as inflation fell
- US TIPS ETFs have seen net inflows ytd that equal to 14% of their starting AUM
- Inflation linked US ETFs on track for their largest yearly inflows since 2009

Today's US Consumer Price Index (CPI) number brought some relief for long suffering TIPS investors. The latest [release](#) from the US Bureau of Labour Statistics showed that yearly inflation edged 0.2% higher for October after a flat year on year reading in the previous month. While inflation is still way off the 2% pace seen in the middle of last year, the result was enough to give inflation linked bond ETFs a leg up over their conventional peers this morning. The iShares TIPS Bond ETF was flat in early trading while its conventional iShares US Treasury Bond ETF traded 24bps off the previous day's close.



Despite the most recent rally, these US government inflation linked bonds have proved to be largely disappointing so far this year as the iBoxx TIPS Inflation-Linked index has delivered negative total returns of 1.7% ytd. This is over 2.4% less than the conventional Markit iBoxx \$ Treasuries index, which has returned 70bps of total returns so far this year.

Markit iBoxx US Treasuries Indices



### Inflation expectations behind slump

Not surprisingly, the recent commodities dip has been a large driver of the recent slump as core inflation has remained relatively healthy. The reading, which strips out volatile energy and food prices, grew at an annualised rate of 1.9% over October. This relatively healthier core reading will be of little help for TIPS investors given that the benchmark inflation used to adjust the asset class is the wider, less buoyant, CPI.

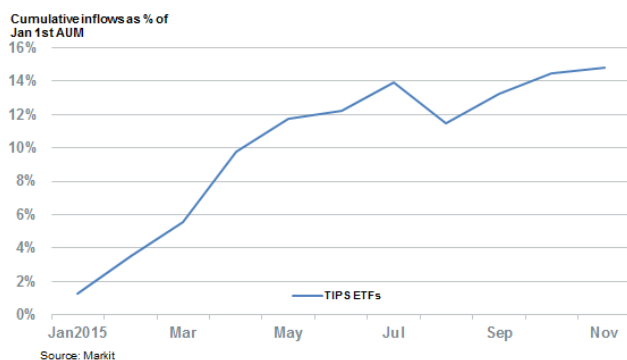
This trend looks set to continue if the cash bond market is anything to go by. The breakeven inflation priced into five year inflation linked treasury bonds is now 1.2%, a full 50bps off the levels seen just prior to the commodities collapse seen this summer.

### ETF investors double down

Despite the vast underperformance delivered by US inflation linked bonds year to date, ETFs that track the asset class have continued to see steady inflows. Investors

have added to their TIPS ETF holdings for ten of the past 11 months, and the \$2.8bn of assets that have flowed into the asset class represent 15% of the AUM managed by these funds at the start of the year. Should this trend hold for the next six weeks, 2015 would mark the best year for inflation linked bonds since 2009.

#### US TIPS ETFs YTD Inflows



These steady inflows indicate that investors are viewing the current inflationary environment as a one way bet for TIPS, and their willingness to add exposure to the asset class shows that they are willing to take some short term pain in order to profit from a lift in inflation from the current doldrums.

### Simon Colvin

#### Analyst

Markit

Tel: +44 207 260 7614

Email: [simon.colvin@markit.com](mailto:simon.colvin@markit.com)

For further information, please visit [www.markit.com](http://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.