Bond Market Monthly

February 7, 2014

Respite

- Heightened EM volatility and softer-than-expected data has fueled an impressive rally in core government rates. Forward curves have flattened decisively and policy expectations have become more dovish. Indeed, UST, JGB, and Gilt yields are all trading near three-month lows; Bunds are as low as they've been since last August.
- While it's unlikely that 10-year Treasuries will make another run at 3.0+% anytime soon, the recent rally is nothing more than a respite and there is limited scope for rates to decline much further. Not only are safe-haven demand and growth concerns well-discounted in current levels, but the underpinnings of a sustainable recovery in the developed markets – led by the US – remains intact.
- We retain an underweight in core government bonds, and favor credit over duration risk. High yield bonds and loans are expected to outperform, supported by relatively attractive valuations and low default rates. We remain cautious on low coupon debt, including US MBS and hybrids. Despite some signs of stabilization, we remain wary about EM debt generally due to prevailing fiscal strains, deteriorating current account balances and weaker fundamentals.

Michael Brandes
Global Head, Fixed Income Strategy
+1-212-559-1098
michael.brandes@citi.com

Kris Xippolitos
Fixed Income Strategy
+1-212-559-1277
kris.xippolitos@citi.com

Figure 1. Market performance views and recommendations

Sectors	Focus recommendations
Developed market core sovereigns	Favor short duration strategies as intermittently higher yields are expected in 2014; Bunds poised to outperform UST and UK Gilts
EU periphery sovereigns	Growth/banking concerns persist but lack of negative catalysts, improved market conditions & potential ECB actions support spreads
Emerging market sovereigns	Volatile FX & rising US rates in '14 are likely to pressure outflows; Use rallies to shed duration & lighten exposure to fragile credits
Global inflation-linked	Dearth of positive catalysts for linker performance near term; US real yields appear rich; Favor short/intermediate UK & JGB linkers
Supranationals/US agencies	EUR-denominated supranational issues feature the most attractive valuations and less potential rate pressure than in US/UK
Agency mortgage-backed	Remain defensive; Extension and rate risks remain high, especially for lower-coupon debt; Diversify with I/O structures
ABS/CMBS/Non-agency	Non-agency residential MBS debt likely to further benefit from US housing recovery; Value in floating rate credit card ABS
Global covered debt	Scope for further (modest) spread compression in EUR covered; Favor Spain & Portugal covered vs. sovereigns
High grade corporate bonds	Expect only modest gains in '14; EUR credit to outperform USD; Favor financials (banks/insurers) vs. non-financials (US & core EU)
High yield corporate bonds	Valuations are less attractive, but still wide spreads and low default rates to fuel further gains; Diversify with bank loan debt
Hybrid debt securities	Rising rates are likely to negatively impact performance; European AT1 bank hybrid market may offer high yielding opportunities
Municipal bonds	Aggressively trim zero coupon and long duration exposures; Favor essential service, housing, high quality hospital debt

Source: Citi Private Bank Global Fixed Income Strategy; MBS = mortgage-backed security; FX = foreign exchange; USD = United States dollar; TIPS = Treasury Inflation Protected Securities

INVESTMENT PRODUCTS: NOT FDIC INSURED · NOT CDIC INSURED · NOT GOVERNMENT INSURED · NO BANK GUARANTEE · MAY LOSE VALUE

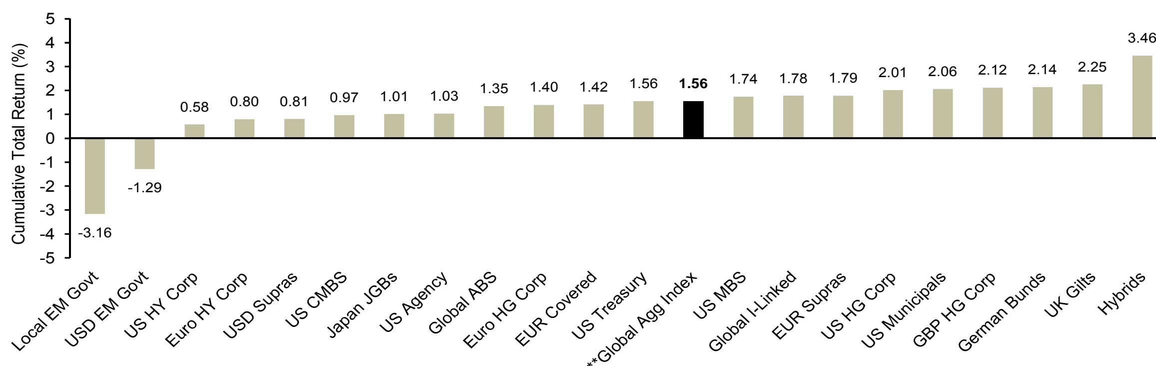
Market performance views and recommendations

Figure 2. Market performance views and recommendations

Sectors	Short-term outlook	6- to 12-month view	Focus recommendations
Developed market core sovereigns	↔	Underperform	Favor short duration strategies as intermittently higher bond yields are expected in 2014; Bunds poised to outperform UST and UK Gilts as ECB policy remains accommodative
EU periphery sovereigns[2]	↑	Outperform	Risks are ring-fenced, for now; Growth and banking concerns persist, but lack of negative catalysts near term, improved financial conditions, and further ECB actions support spreads
Emerging market sovereigns	USD ↔	USD Under perform	Volatile FX, slowing growth and rising US rates likely to further pressure outflows; Use rallies to shed long duration positions and lighten exposure to fragile credits; Sell-off has produced select short-dated (currency-hedged) opportunities
	Local ↔	Local Under perform	
Global inflation-linked	↓	Underperform	Dearth of positive catalysts for gains near term; US real yields are rich; Favor short/intermediate UK & JGB linkers
Supranationals/US agencies	↔	Market perform	EUR-denominated supranationals feature the most attractive valuations and less potential rate pressure than in US/UK
Agency mortgage-backed	↓	Underperform	Remain defensive; Extension and rate risks remain high, especially for lower-coupon debt; Diversify with I/O structures
ABS/CMBS/Non-agency	↔	Outperform	Non-agency debt likely to further benefit from US housing recovery; Value in floating rate credit card ABS
Global covered debt	↑	Market perform	Scope for further (modest) spread compression in EUR covered; Favor Spain & Portugal covered vs. sovereigns
High grade corporate bonds	↔	Market perform	Expect only modest gains in 2014, EU to outperform US; Favor financials (banks, insurers) vs. non-financials (US & core EU)
High yield corporate bonds	↑	Outperform	Valuations are less attractive, but still wide spreads and low default rates to fuel further gains; Diversify with bank loan debt
Hybrid debt securities	↓	Market perform	Rising rates are likely to negatively impact performance; Growing European AT1 bank hybrid market may offer high yielding opportunities despite principal write-down risks
Municipal bonds	↔	Market perform	Aggressively trim zero coupon and long duration exposures; Favor essential service, housing, high quality hospital debt

Source: Citi Private Bank Global Fixed Income Strategy. 1) Return expectations versus the BarCap Global Aggregate Investment Grade Index, 2) Greece, Ireland, Italy, Portugal, and Spain

Figure 3. Global fixed income index returns, year-to-date (%)



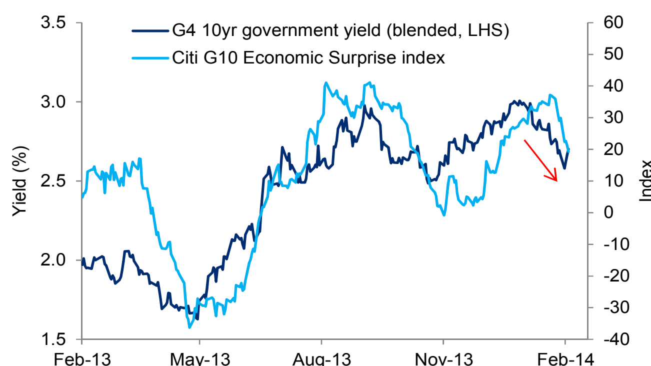
Source: Barclays Capital; Wells Fargo, Past performance is no guarantee of future results. **Benchmark

Relative value sector recommendations

Sovereign debt	Comments and recommendations
Developed markets	Heightened EM volatility and softer-than-expected economic data has fueled an impressive rally in core government rates (Fig. 4). **Forward curves have flattened decisively and policy expectations have become more dovish** (Fig. 5). Flight-to-quality sentiment seems undeterred despite a slew of EM central bank rate hikes meant to stabilize currencies and allay investor concerns. Indeed**, UST, JGB, and Gilt yields are all trading near three-month lows**; **Bunds are as low as they've been since last August**. **EM risks and soft data are likely to restrain any sharp backup in benchmark yields near term**. In a more extreme scenario, EM turmoil has the potential to more seriously undermine investor confidence and risk appetites (similar to the '97-'98 crisis). That's not our base case. Nor is it at the Federal Reserve, who gave no indications after meeting last month that the current turbulence threatens domestic growth prospects. But make no mistake about it – policymakers will halt the tapering process if the turmoil begins to produce a more pronounced effect on US financial conditions and the real economy. While it's unlikely that 10-year Treasuries will make another run at 3.0+% anytime soon, the recent rally is nothing more than a respite and there is limited scope for rates to decline much further. Not only are safe-haven demand and growth concerns well-discounted in current levels, but the underpinnings of a sustainable recovery in the developed markets – led by the United States – remains intact. **Improving fundamentals will bolster activity and Fed tapering**. Steeper term structures naturally follow the path of improving growth. Thus, we retain our underweight in core government bonds**. Treasuries and Gilts are poised to underperform** as rates rise further than forward curves suggest. JGB and Bund yields are headed higher, too, though the magnitude is poised to be benign given disinflationary trends and lower growth. In our view, these factors will lead to even more accommodation from the ECB and BoJ, contrary to our expectations for the Fed and BoE. For most investors, though, the recent rate rally provides a good window of opportunity to defensively reposition long duration exposures. We continue to **favor credit over duration risk** in diversified

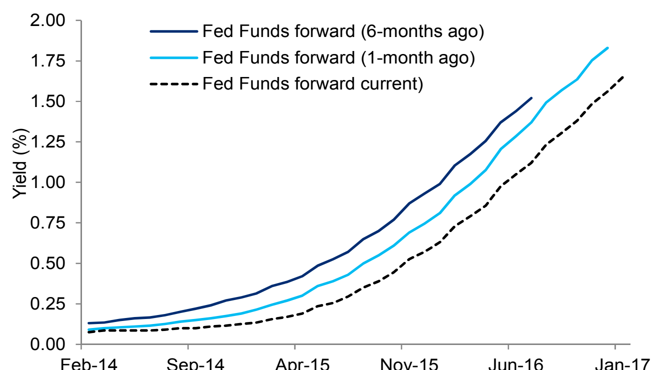
Inflation-linked	Comments and recommendations
	Real yields in the largest developed markets tracked the recent decline in nominal rates, fueled by EM risk aversion. Real yields declined by nearly 30bp in the US and by about 15bp in the Euro area. All major linker markets have posted positive returns YTD, led by Canada. JGB linkers, however, have generated the most impressive gains relative to nominals (1.6%). Breakevens have mostly compressed and forward inflation expectations have softened, except in EM. Not surprisingly, **EM bonds have been under the most pressure as real yields are forced to adjust higher** (S. Africa linkers declined by nearly 4.0% in January). In our view, **inflation linked debt appears rich given modest inflation pressures and our expectations for a more normalized term structure that should drive real rates higher** as the year proceeds. We remain underweight the sector and expect portfolio flows to be volatile in the absence of any catalysts to materially impact inflation concerns (particularly in the Eurozone).

Figure 4. Soft data has helped to fuel the rally in core rates



Source: Haver Analytics, The Yield Book.

Figure 5. Fed policy expectations progressively more dovish



Source: Bloomberg. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

Past performance is no guarantee of future results

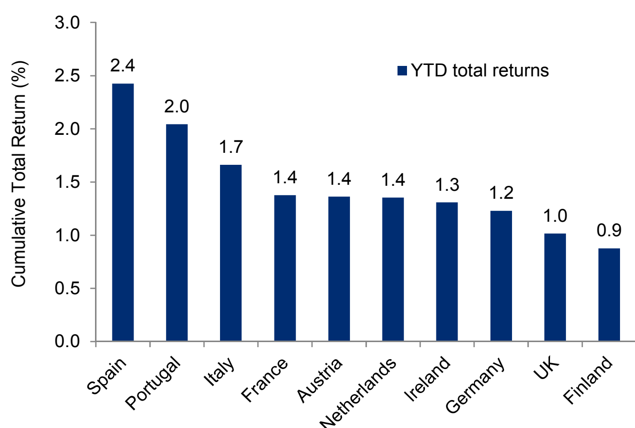
Relative value sector recommendations

Gov't related	Comments and recommendations
Agencies/ Supranationals	Performance in US GSE (government sponsored enterprise) **agency debt has closely tracked the direction of US Treasury rates.** While spreads are roughly unchanged this year, index prices have risen by more than one point to the highest level since June 2013. Given the absence of meaningful GSE housing reform and the continued implicit government guarantee, **we continue to view US agency debt as an attractive sovereign alternative.** Moreover, **callable agency debt features attractive yield pick-up; we favor structures with short term lock-outs. There is also value in European supranational and agency debt.** In our view, solid fundamentals and diversified country exposure is likely to further support demand. Moreover, the less-pronounced backup in interest rates that we expect in the Eurozone should promote outperformance versus USD denominated securities.

Covered debt	Comments and recommendations
	Spreads in EUR covered debt were generally flat (to slightly wider) despite the recent pull-back in global equity and other high beta markets. **Led by Spanish and Portuguese issuers, covered debt continues to provide investors with relatively attractive returns versus other high quality fixed income assets** (Fig. 6). Indeed, Spain and Portugal covered bonds have risen by 2.0% and 2.4% this year, respectively, and 11.4% and 7.8% over the last 12 months. Although absolute yields are low, spreads still remain wide versus pre-crisis levels. **We believe there is scope for further spread compression and outperformance** given that strong demand (especially from banks) should persist and risks seem well-contained. We **would underweight USD vs. EUR securities given the sharper uptick in UST yields (relative to Bunds) that we expect to transpire over the course of this year.**

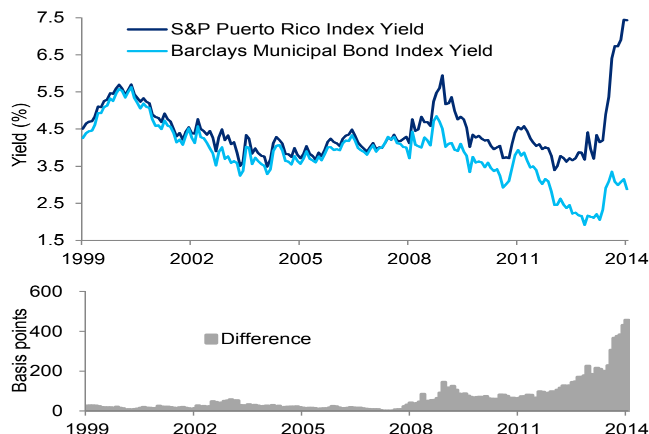
Municipals	Comments and recommendations
	The sharp decline in rates and subdued new supply has helped to generate impressive returns this year. A modest forward calendar, improving state/local finances, and two consecutive weeks of fund inflows are encouraging. However, **these factors are unlikely to offset the drag on returns should Treasury rates move higher, as we expect.** We encourage investors to **view the recent rally as an opportunity to shed long-dated and zero-coupon exposures**. While we continue to be more concerned about duration (**we favor the 3- to 10-year range**) than credit quality, there are a few notable exceptions (Stockton, Detroit, Puerto Rico). Indeed, on February 5, PR debt was stripped of its high grade status by S&P, and then again by Moody's on February 7. This should not be a complete surprise – after all, the bonds have traded in distressed territory since September (Fig. 7), and all three rating agencies have ranked PR at the lowest end of high grade (on negative watch). We advise caution given substantial financing hurdles and liquidity concerns that are bound to persist (leading to further ratings deterioration). **We favor essential service, property (tax-backed) debt, and high-quality hospital issuers**.

Figure 6. Spain and Portugal covered bonds outperform YTD



Source: Barclays Capital.

Figure 7. PR debt has traded cheap to peers for some time



Source: Bloomberg..

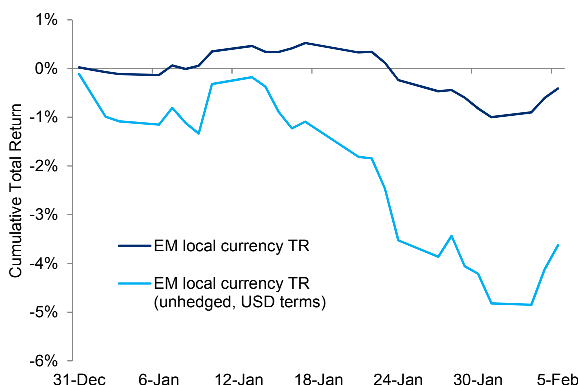
Past performance is no guarantee of future results

Relative value sector recommendations

Securitized	Comments and recommendations
Mortgages/ Asset-backed	Despite the expected decline in asset purchases by the US Federal Reserve, agency mortgage-backed securities (MBS) have benefitted from the recent decline in Treasury rates. Indeed, **US MBS has posted a year-to-date total return of 1.8%, outperforming the broad fixed income market**. Most of this outperformance has been fueled at the lower end of the coupon stack, while higher coupon securities (i.e.; 5% to 6% pass-throughs) have posted modest losses. This was largely a result of richer valuations and the potential changes in the Home Affordable Refinance Program (HARP). **While duration risk has been mitigated for now, we remain defensive, especially about low-coupon debt**. These securities are vulnerable to the extension risks that naturally correlate with a rise in interest rates. **We prefer swapping MBS exposure to higher coupons, or diversifying portfolios with interest-only (I/O) mortgage structures**. The cash flows in I/O securities typically increase as interest rates rise, boosting total returns. We remain constructive on non-agency RMBS, despite the recent pull back in risk assets. Consistent with our constructive outlook on the European periphery, **we find value in the higher quality tranches** (senior and mezzanine) **of Spanish RMBS**. Spreads are likely to compress as economic prospects improve.

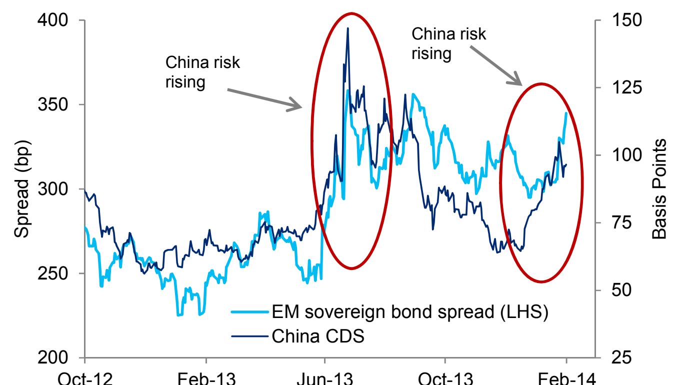
Sovereign debt	Comments and recommendations
Emerging Markets	Year-to-date performance in most fixed income sectors have benefitted from the safe-haven bid fueled by concerns in the emerging markets (EM). Not surprisingly, while global bond markets have risen by 1.6% YTD, **total returns in EM bonds have been soft.** Since January 1, external debt returns are flat (0.02%) and local currency bonds are lower by roughly 40bp. Concerns about the pace of China's economic growth and other idiosyncratic risks (i.e., political instability, central bank policy) has exacerbated currency volatility across regions. Indeed, when we adjust returns to account for currency depreciation, the unhedged performance of **local currency EM bonds have declined by 3.5% (to USD) and -1.7% (to EUR) (Fig. 8).** In our view, **the most recent pull-back is largely due to a recalibration of perceived risks**, not portfolio repositioning triggered by the reduction of central bank liquidity (QE). Last June, prospects for Fed tapering and the sharp rise in US Treasury yields prompted EM market outflows. While UST rates have recently declined (contrary to the last sell-off), China risk has risen in both instances (Fig. 9). **Rising perceived risks in China due to slowing economic activity has intensified volatility in EM markets g**iven the heavy reliance that many commodity exporters have on China demand. **We remain cautious on EM debt markets, generally.** Prevailing fiscal stress and deteriorating current account balances reflect weaker fundamentals. This typically fosters an environment of depreciating currencies and wider credit spreads. **We favor short-duration exposures in countries that retain conservative trade balances (e.g., South Korea, Taiwan, Vietnam).** We also favor local and external Mexico sovereign debt, which was upgraded by Moody's on February 5, to A3. The upgrade is a result of new structural reforms that are poised to strengthen the country's growth outlook. This should better anchor MXN and help set it further apart from prevailing FX volatility elsewhere.

Figure 8. FX weakness has exacerbated losses in local EM debt



Source: JP Morgan.

Figure 9. China risk has fueled spread widening in EM debt



Source: Bloomberg, The Yield Book.

Past performance is no guarantee of future results

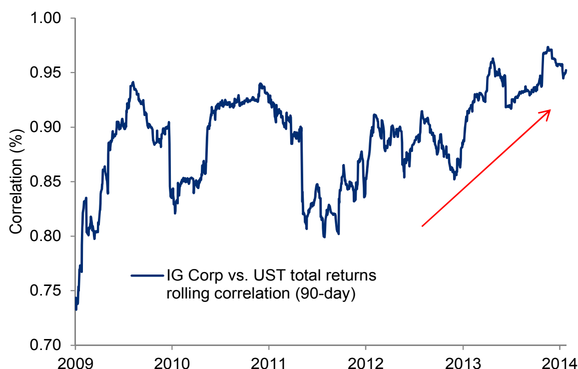
Relative value sector recommendations

Corporate debt	Comments and recommendations
Investment Grade	The positive momentum in high grade corporate debt continued in 2014 despite modestly wider credit spreads. **Although global corporate index spreads are nearly 10bp wider, falling government rates have driven index yields to six-month lows.** As a result, US and European credit has risen by 1.7% and 1.43% YTD, respectively; long-dated maturities and BBB credits have outperformed higher-quality issuers. Despite generally strong fundamentals and bond fund inflows, **the threat of higher interest rates (not credit quality) remains our principal concern for high grade returns this year**, particularly in the US and UK (Fig. 10). **We continue to recommend that investors defensively position duration exposures (3- to 7-years). We expect financial issuers to outperform non-financials**, as banks further deleverage balance sheets and boost capital reserves. Among financial credits, we favor lower-quality debt and higher-yielding opportunities in subordinated securities. **We also favor US and European credits in the insurance sector**. Much like the trend in banking, insurers have been improving their capital bases and balance sheets. Moreover, valuations remain relatively attractive.

High yield	Comments and recommendations
	High yield (HY) debt has held up relatively well despite a challenging start to the New Year for risk assets. US and European HY bonds and loans have gained 0.8% and 0.9% year-to-date, respectively, due to the strong rally in core government rates, **Spreads in both regions have widened by approximately** 40bp to 45bp since the middle of January, while index yields have risen by about 20bp to 30bp. **We maintain our constructive view on the HY sector** despite the heightened risk aversion reflected by volatile equity and FX markets. While "risk-off" periods have historically correlated with credit spread widening (and bond fund outflows), we expect strong fundamentals in HY to prevail once market conditions normalize. Indeed, Moody's trailing 12-month global speculative default rate was 2.6% for 2013 (from 3.0% in 3Q'13); it remains well below its historical average of 4.7%. **Moody's projects that the global default rate will be 2.3% this year (Fig. 11).** In our view, potential interest rate risks far exceed current credit risks. Thus, **we encourage HY investors to minimize long duration exposures. While fixed-rate debt will likely outperform floating-rate loans in the near term, the resumption of rising rate concerns will further boost bank loan performance later this year.**

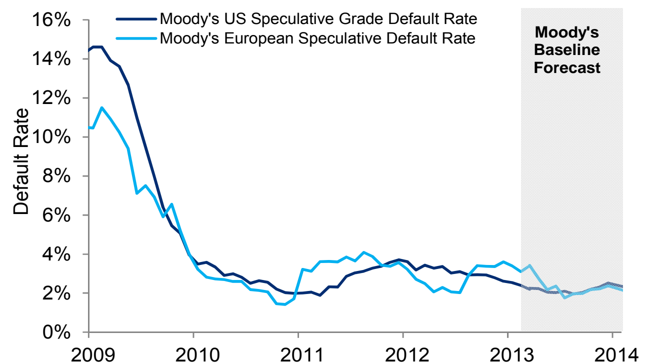
Hybrid debt	Comments and recommendations
	Hybrid debt and preferred securities have had an auspicious start to the year, largely due to the outperformance in long-dated sovereign debt. Indeed, 30-year US Treasury bond prices have risen by nearly 7 points since January 1. **While hybrids have gained 3.1% YTD, it pales in comparison to long-dated Treasuries, which have gained 7.5% YTD.** This illustrates the negative convexity of the asset class and its unattractive balance of risks. Although market conditions should persist in the near-term, **we remain cautious about long-duration instruments this year.** We recommend avoiding low-coupon perpetual securities given the greater sensitivity to changes in long-term rates. **We favor higher-coupon (7% to 8%) fixed-to-floating rate securities, and attractive yield opportunities in the primary hybrid market.**

Figure 10. HG corporates increasingly correlated to UST move



Source: The Yield Book.

Figure 11. High yield default rates are expected to remain low



Source: Moody's Investor Services. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events

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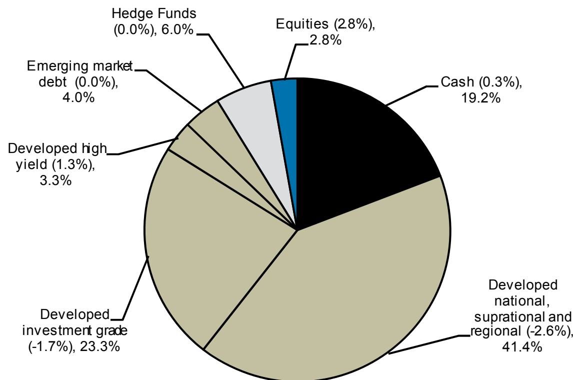
Fixed income tactical asset allocations

Figure 12. Fixed income allocation risk level I*



Figures in brackets are the difference versus the strategic benchmark

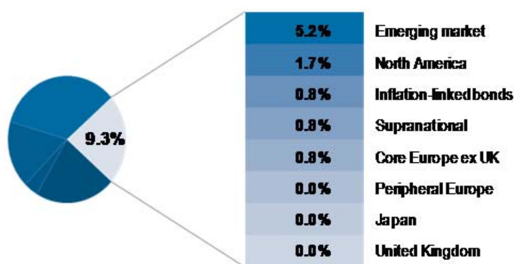
- Cash
- Global fixed income
- Hedge funds
- Equities* (2.8% allocation to equities in the fixed income portfolio)

Source: Citi Private Bank Global Investment Committee, January 22, 2014.

Core Positions

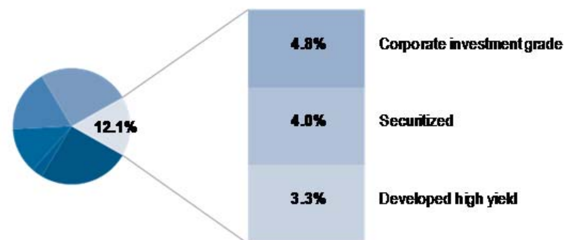
- Global fixed income remains underweight by 3.0% while global equities rises to a 2.8% overweight, with the cash allocation coming down to a 0.3% overweight.
- Developed sovereign stays as the largest underweight at -2.6%. Similarly developed investment grade fixed income maintains a -1.7% underweight, while emerging market debt is at benchmark allocation.
- High-yield is the only fixed income overweight at +1.3%

Figure 13. Fixed income sovereign allocation (risk level 3)**



Source: Citi Private Bank Global Investment Committee, January 22, 2014.

Figure 14. Fixed income credit allocation (risk level 3)**



Source: Citi Private Bank Global Investment Committee, January 22, 2014.

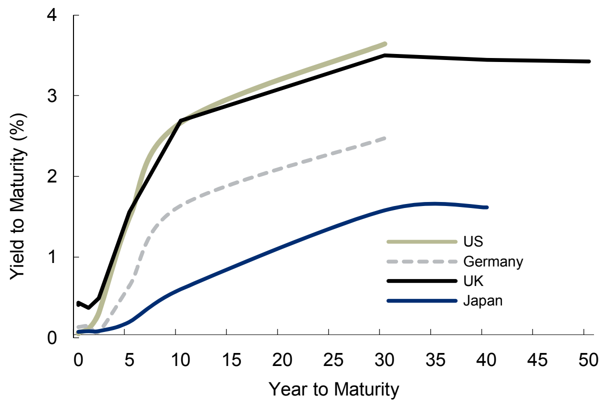
* Risk level 1 is designed for investors who have a preference for capital preservation and relative safety over the potential for a return on investment. These investors prefer to hold cash, time deposits and/or lower risk fixed income instruments.

**Risk level 3 is designed for investors with a blended objective who require a mix of assets and seek a balance between investments that offer income and those positioned for a potentially higher return on investment. Risk level 3 may be appropriate for investors willing to subject their portfolio to additional risk for potential growth in addition to a level of income reflective of his/her stated risk tolerance.

Strategic = benchmark; tactical = the Citi Private Bank Global Investment Committee's current view; and active = the difference between strategic and tactical.

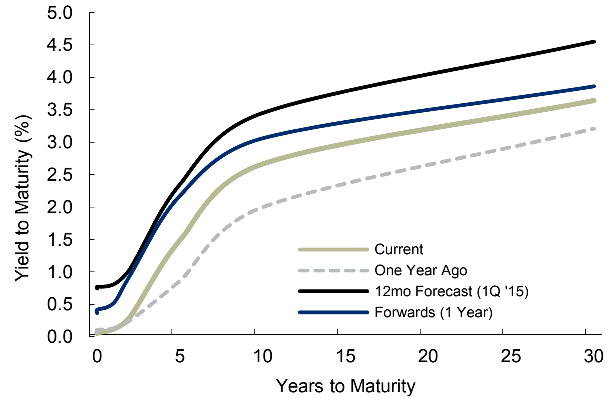
Government bond benchmark yield curves

Figure 15. Germany, Japan, UK, US government yield curves



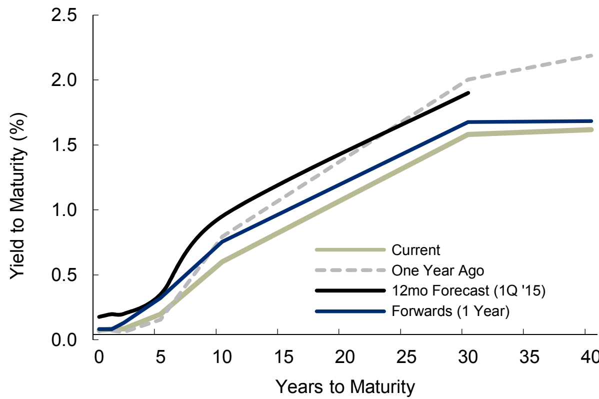
Source: Bloomberg.

Figure 16. US government bond yield curve



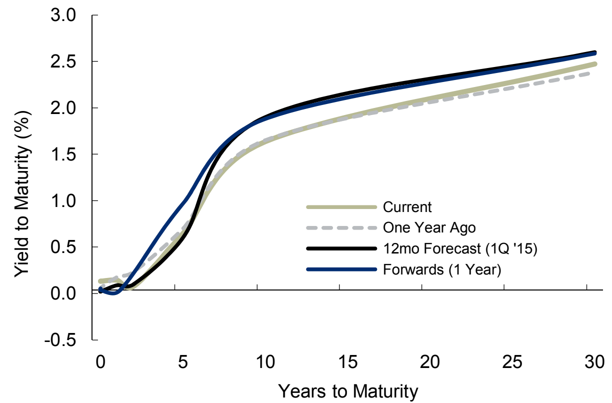
Source: Bloomberg.

Figure 17. Japan government bond yield curve



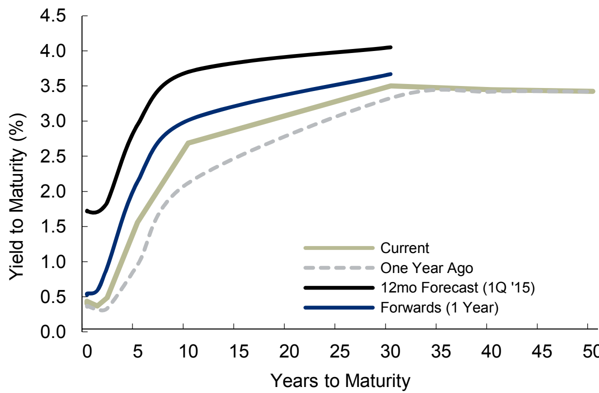
Source: Bloomberg.

Figure 18. German government bond yield curve



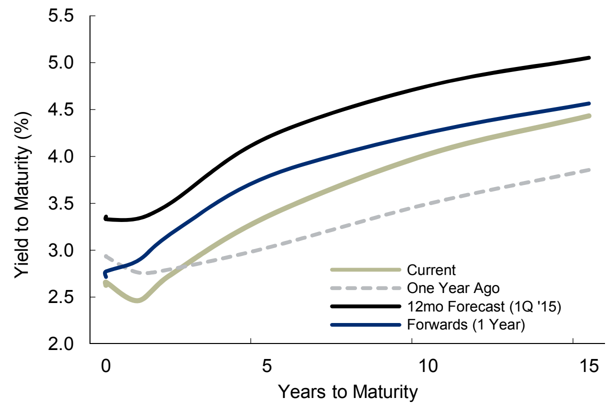
Source: Bloomberg.

Figure 19. UK government bond yield curve



Source: Bloomberg.

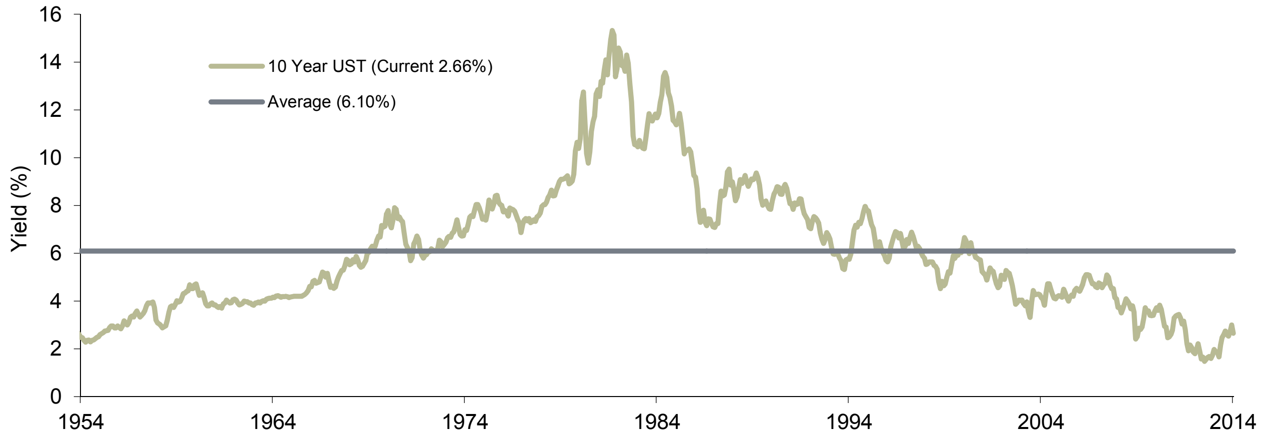
Figure 20. Australia government bond yield curve



Source: Bloomberg.

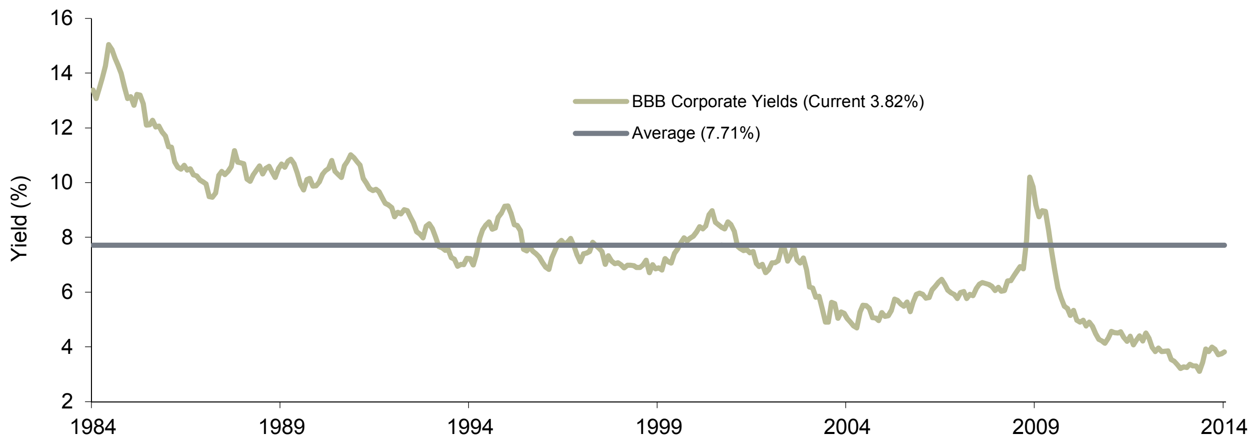
Long-term historical bond yields

Figure 21. US Treasury 10-year benchmark yield, January 1954 to January 2014 (month end)



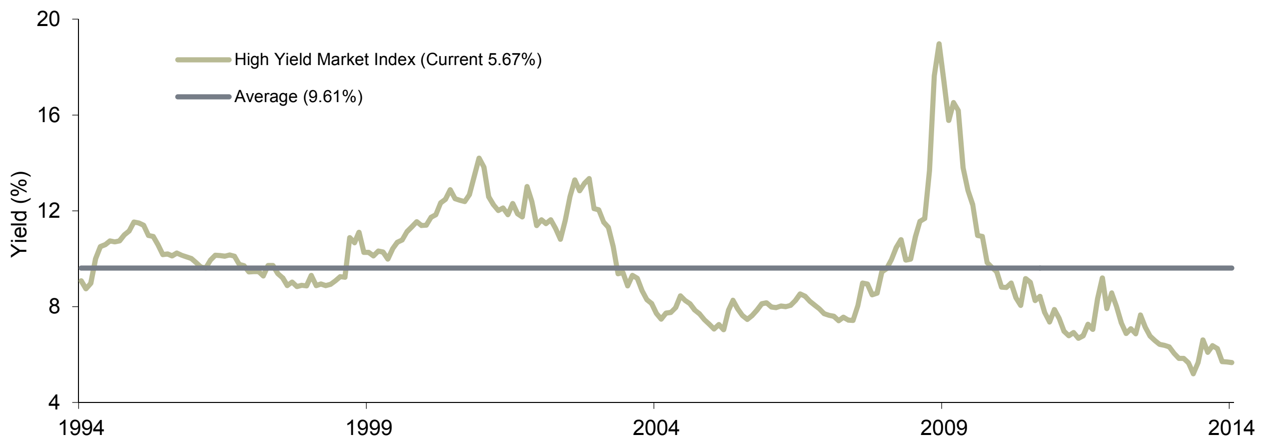
Source: The Yield Book.

Figure 22. Citi US Corporate BBB Index yield, January 1984 to January 2014 (month end)



Source: The Yield Book.

Figure 23. Citi High Yield Market Index yield, January1994 to January 2014 (month end)



Source: The Yield Book.

Global credit default swap monitor

Figure 24. Global credit default swap monitor

US	2/5/2014	1 Month	3 Months	6 Months	12 Months
CDX North America Inv Grade	73	63	74	73	89
CDX North America High Yield	357	309	361	363	445
CDX North America High Vol	152	135	166	157	190
Markit MCDX Municipal Index	142	139	141	142	130
EMEA	**2/5/2014**	**1 Month**	**3 Month**	**6 Months**	**12 Months**
iTraxx Europe Index Inv Grade	82	69	84	94	115
iTraxx Europe Crossover Index	317	279	346	392	450
iTraxx Europe Senior Financial	101	82	113	134	155
iTraxx SOVX Western Europe	56	58	68	88	105
Germany	24	24	23	27	43
United Kingdom	28	26	27	37	51
Italy	170	148	201	243	264
Greece	571	644	669	1057	N/A
Portugal	274	315	358	439	400
Ireland	100	113	123	143	200
Spain	136	134	173	236	284
Turkey	255	226	190	204	133
Russia	192	157	162	182	142
South Africa	224	203	188	221	171
Asia-Pacific	**2/5/2014**	**1 Month**	**3 Month**	**6 Months**	**12 Months**
iTraxx Japan Inv Grade	86	69	95	96	129
iTraxx Australia Inv Grade	108	99	105	117	122
iTraxx Asia ex-Japan Inv Grade	150	134	136	142	120
Japan	53	42	56	63	73
China	95	84	82	117	69
Australia	44	37	41	52	47
New Zealand	47	40	41	48	49
Vietnam	269	265	252	254	221
Indonesia	221	250	222	222	150
Philippines	122	119	102	124	108
Thailand	161	141	119	125	101
South Korea	71	68	63	91	72
Malaysia	123	113	110	122	92
Latin America (USD)	**2/5/2014**	**1 Month**	**3 Month**	**6 Months**	**12 Months**
CDX Emerging Markets	333	273	284	301	233
Mexico	106	95	111	123	100
Brazil	194	188	189	182	120
Colombia	128	122	131	128	98
Peru	135	136	135	134	96
Chile	90	82	82	91	71
Argentina	2661	1649	1826	2534	2104
Venezuela	1550	1154	1007	895	635

Source: Bloomberg; Markit.

Fixed income market returns

Figure 25. Citi US Broad Investment Grade Index total returns (%),January 2014

	Index Value	Principal	Total	Past 3 Months	Year to Date	Past 12 Months
Broad Investment-Grade Bond Index	1506.73	1.18	1.45	0.48	1.45	0.10
Treasury/Govt. Sponsored/Credit	1488.20	1.12	1.36	0.49	1.36	(0.11)
Treasury/Govt. Sponsored	1367.91	1.08	1.25	0.13	1.25	(0.54)
Treasury/Agency	1367.59	1.12	1.29	0.13	1.29	(0.57)
Treasury	1361.25	1.14	1.31	0.11	1.31	(0.60)
Govt. Sponsored	1374.01	0.62	0.83	0.25	0.83	(0.16)
o Agency	1371.23	0.80	1.03	0.37	1.03	(0.30)
o Supranational	1465.88	0.25	0.41	0.00	0.41	0.24
Collateralized	1579.19	1.33	1.65	0.45	1.65	0.61
o Mortgage	1579.24	1.34	1.66	0.45	1.66	0.61
o Asset-Backed	459.93	0.39	0.57	0.32	0.57	0.33
Credit	1814.50	1.17	1.52	1.01	1.52	0.51
o AAA	1381.22	0.66	0.83	0.25	0.83	(0.01)
o AA	1616.51	1.04	1.30	0.79	1.30	0.44
o A	1805.84	1.30	1.64	1.15	1.64	0.73
o BBB	2142.69	1.14	1.56	1.03	1.56	0.37
US Inflation-Linked Securities Index	274.67	2.12	2.23	(0.53)	2.23	(6.57)
High-Yield Market Index	824.85	0.14	0.72	1.67	0.72	6.63
ESBI	633.44	(1.45)	(0.93)	(2.58)	(0.93)	(6.05)

Source: The Yield Book.

Figure 26. Citi World Broad Investment Grade Index total returns (%), local currency terms, January 2014

	Index Value	Principal	Total	Past 3 Months	Year to Date	Past 12 Months
WorldBIG Index	197.48	1.24	1.49	0.78	1.49	1.99
Govt./Govt. Sponsored	185.26	1.23	1.45	0.72	1.45	2.00
Sovereign/Sov-Guaranteed	181.71	1.26	1.48	0.74	1.48	2.05
o Domestic Sovereign (WGBI)	180.25	1.31	1.52	0.78	1.52	2.17
o Foreign Sovereign	237.82	(0.13)	0.27	(0.97)	0.27	(3.44)
o Sovereign Guaranteed	199.63	0.97	1.19	0.67	1.19	2.43
Govt. Sponsored/Regional Govt.	209.61	0.92	1.15	0.57	1.15	1.41
o Agency	206.45	0.75	0.98	0.41	0.98	0.32
o Supranational	210.03	1.07	1.27	0.65	1.27	1.89
o Regional Government	213.44	0.88	1.13	0.87	1.13	2.92
Collateralized	216.84	1.31	1.61	0.65	1.61	1.53
MBS	220.34	1.34	1.66	0.45	1.66	0.61
Covered	201.77	1.17	1.44	1.42	1.44	5.11
o Jumbo Pfandbrief	189.65	0.36	0.63	0.56	0.63	2.30
Asset Backed	239.81	1.36	1.65	0.68	1.65	2.66
Corporate	233.00	1.23	1.57	1.17	1.57	2.47
o AAA	195.32	2.14	2.42	1.30	2.42	0.47
o AA	220.00	1.25	1.54	0.94	1.54	1.82
o A	226.84	1.19	1.52	0.96	1.52	1.93
o BBB	248.73	1.26	1.64	1.50	1.64	3.46

Source: The Yield Book.

Fixed income market returns

Figure 27. Citi World Broad Investment Grade Index total returns (%), USD terms unhedged, January 2014

	Index Value	Total	Past 3 Months	Year to Date	Past 12 Months
WorldBIG Index	211.37	1.08	(0.20)	1.08	(0.23)
Govt./Govt. Sponsored	202.83	1.12	(0.64)	1.12	(1.21)
Sovereign/Sov-Guaranteed	202.34	1.22	(0.72)	1.22	(1.43)
o Domestic Sovereign (WGBI)	201.17	1.31	(0.75)	1.31	(1.49)
o Foreign Sovereign	245.16	(0.19)	(1.13)	(0.19)	(3.80)
o Sovereign Guaranteed	220.05	(0.29)	0.20	(0.29)	2.02
Govt. Sponsored/Regional Govt.	211.40	0.09	0.23	0.09	1.27
o Agency	202.06	0.57	0.26	0.57	0.33
o Supranational	216.01	(0.12)	0.24	(0.12)	1.72
o Regional Government	228.68	(0.36)	0.29	(0.36)	2.46
Collateralized	224.87	1.17	0.51	1.17	1.41
MBS	220.34	1.66	0.45	1.66	0.61
Covered	230.46	(0.70)	0.63	(0.70)	4.47
o Jumbo Pfandbrief	217.47	(1.52)	(0.25)	(1.52)	1.63
Asset Backed	252.48	1.29	1.76	1.29	4.24
Corporate	246.13	0.81	1.04	0.81	2.44
o AAA	196.49	1.82	1.32	1.82	0.87
o AA	234.17	0.75	0.80	0.75	1.64
o A	244.12	0.77	0.84	0.77	1.87

Source: The Yield Book.

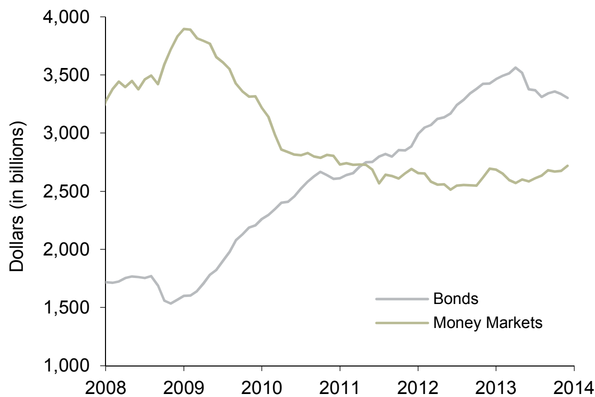
Figure 28. Citi World Broad Investment Grade Index total returns (%), USD terms hedged, January 2014

	Index Value	Total	Past 3 Months	Year to Date	Past 12 Months
WorldBIG Index	211.76	1.48	0.76	1.48	2.01
Govt./Govt. Sponsored	204.08	1.43	0.70	1.43	2.02
Sovereign/Sov-Guaranteed	202.49	1.46	0.71	1.46	2.07
o Domestic Sovereign (WGBI)	201.43	1.50	0.76	1.50	2.18
o Foreign Sovereign	250.95	0.27	(0.97)	0.27	(3.40)
o Sovereign Guaranteed	206.62	1.17	0.65	1.17	2.52
Govt. Sponsored/Regional Govt.	212.29	1.13	0.55	1.13	1.46
o Agency	209.04	0.98	0.40	0.98	0.33
o Supranational	209.37	1.25	0.62	1.25	1.96
o Regional Government	222.24	1.12	0.86	1.12	3.01
Collateralized	218.69	1.61	0.64	1.61	1.55
MBS	220.34	1.66	0.45	1.66	0.61
Covered	211.60	1.41	1.38	1.41	5.24
o Jumbo Pfandbrief	198.39	0.61	0.54	0.61	2.43
Asset Backed	234.29	1.63	0.63	1.63	2.56
Corporate	235.43	1.56	1.15	1.56	2.50
o AAA	196.97	2.41	1.27	2.41	0.46
o AA	222.50	1.53	0.92	1.53	1.84
o A	228.57	1.50	0.95	1.50	1.95
o BBB	250.41	1.63	1.49	1.63	3.50

Source: The Yield Book.

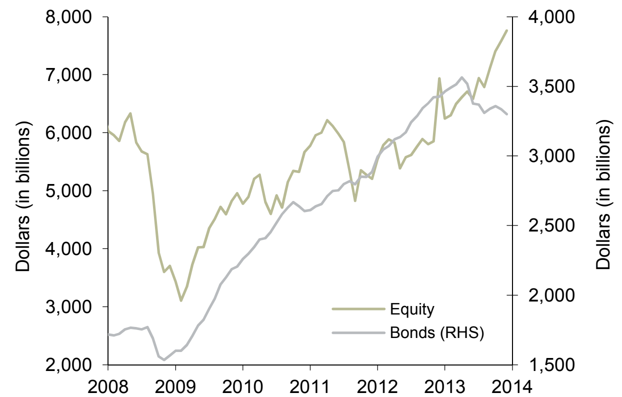
Bond market fund flows

Figure 29. Total net assets—total bonds versus money markets



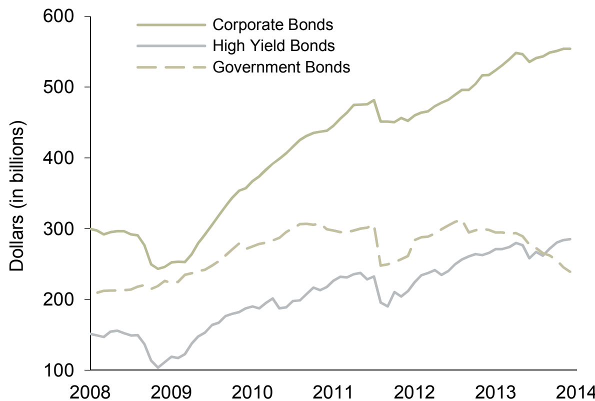
Source: Investment Company Institute.

Figure 30.Total net assets—total bonds versus total equity



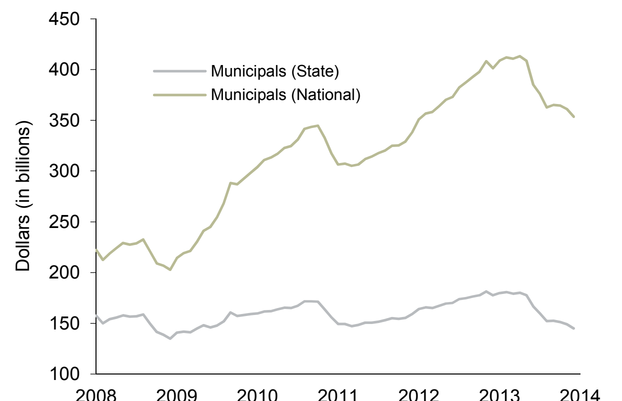
Source: Investment Company Institute.

Figure 31. Total net assets—taxable fixed income bonds



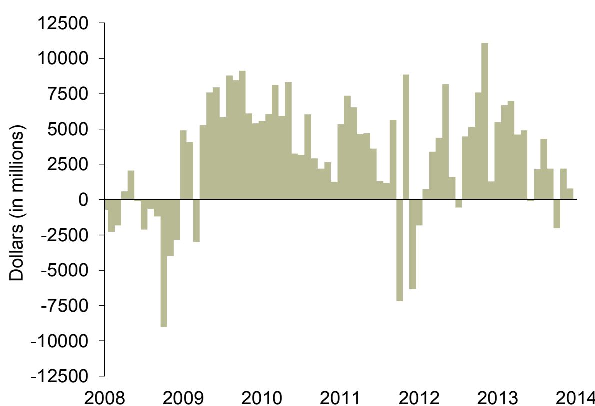
Source: Investment Company Institute.

Figure 32. Total net assets—tax-free bonds



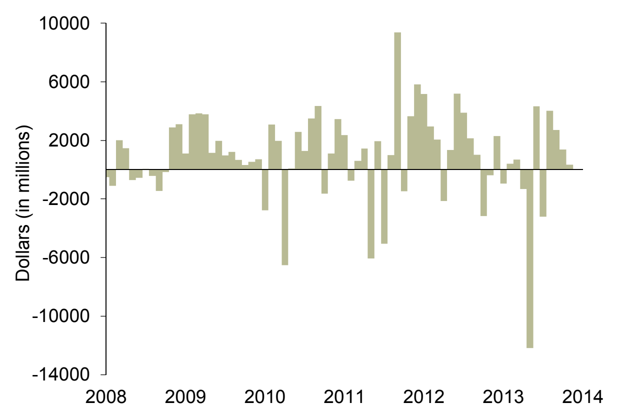
Source: Investment Company Institute.

Figure 33. Monthly net flows—high grade bonds



Source: Investment Company Institute.

Figure 34. Monthly net flows—high yield bonds



Source: Investment Company Institute.

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