

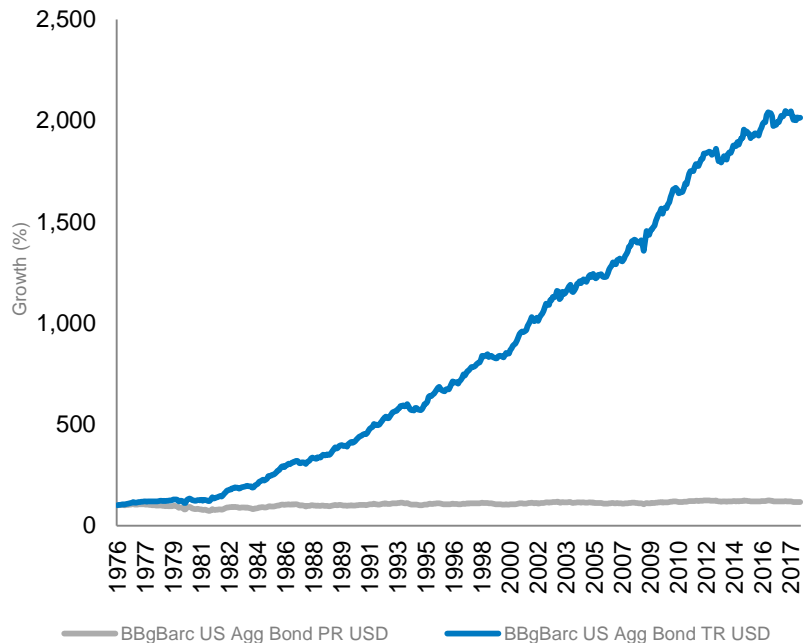
A bond bear market? Bring it on!

Presented by:

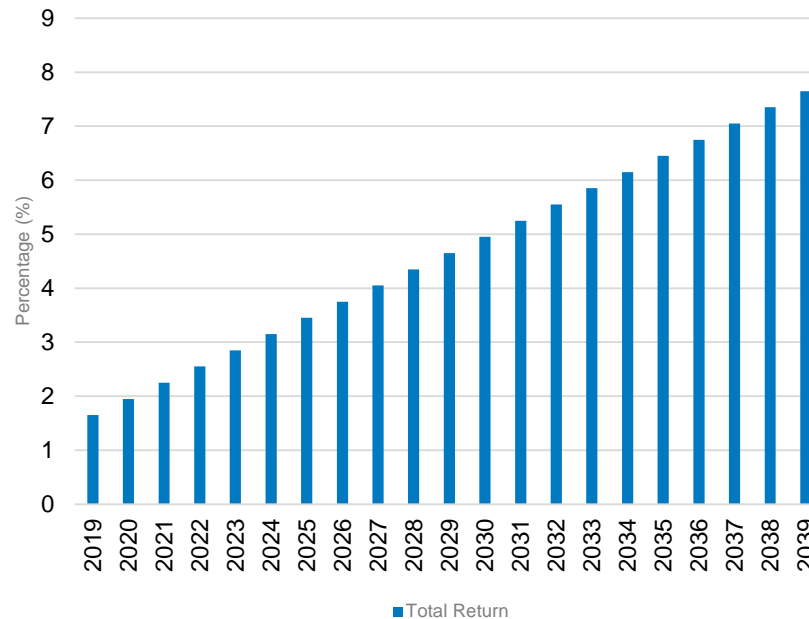
Janelle Woodward, CFA
Global Co-Head of Income

Income is key to fixed income – rising rates are good for long term investors

Coupon payments drive returns



Hypothetical Total Return of bonds per year in a 20 year bear market

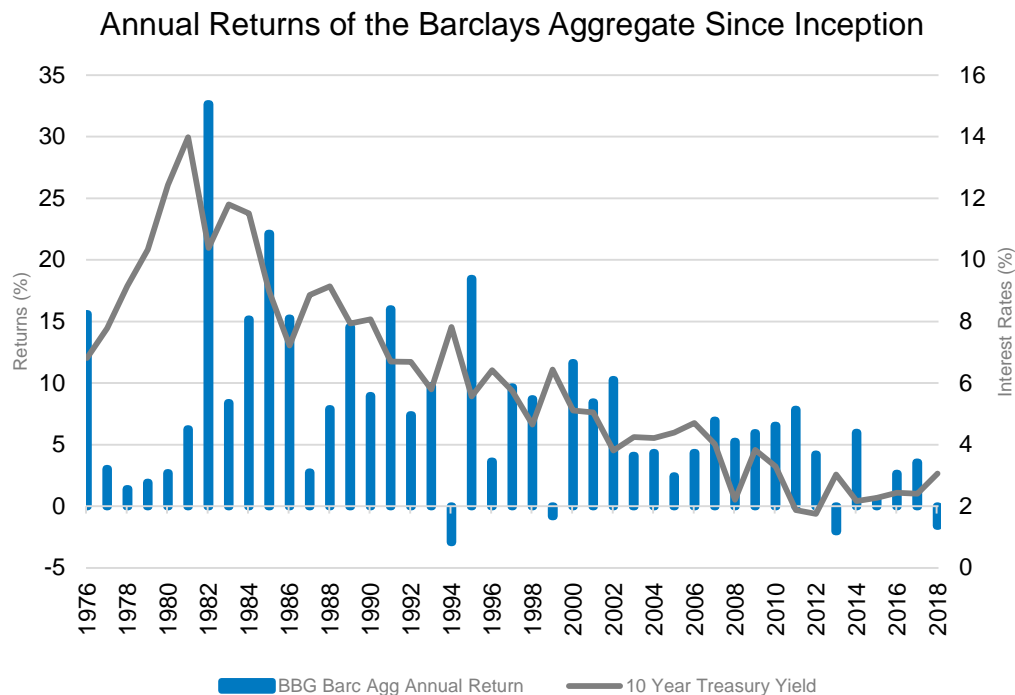


Sources: Barclays; BMO Global Asset Management

Note: TR is total return; PR is price return
Sources: Barclays; BMO Global Asset Management

For illustrative purposes only; not a guarantee of future returns.

A closer look at fixed income returns



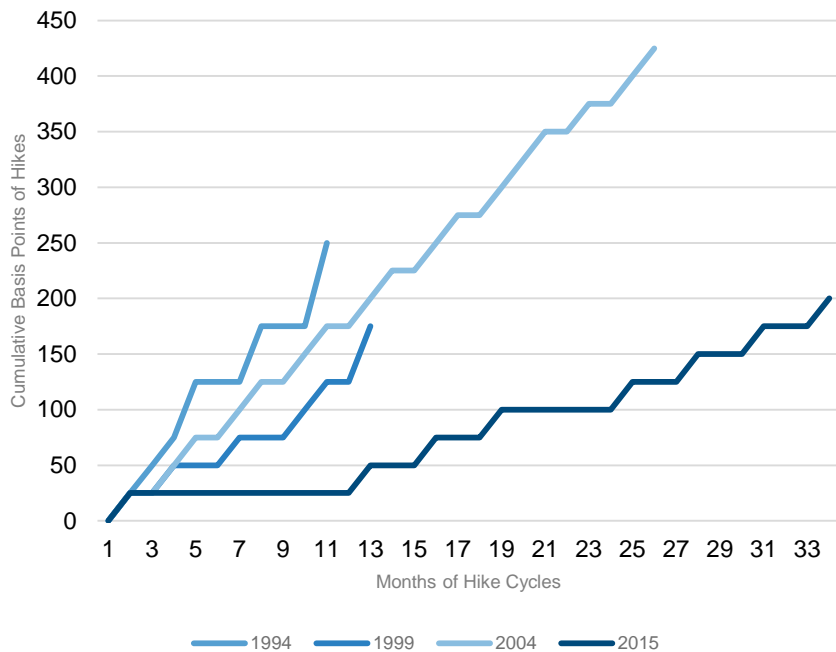
Sources: Barclays, US Treasury

Starting Yield	Change in Yields to Break Even (basis points) Assuming a 6 Year Duration
2.50%	42
2.75%	46
3.00%	50
3.25%	54
3.50%	58
3.75%	63
4.00%	67

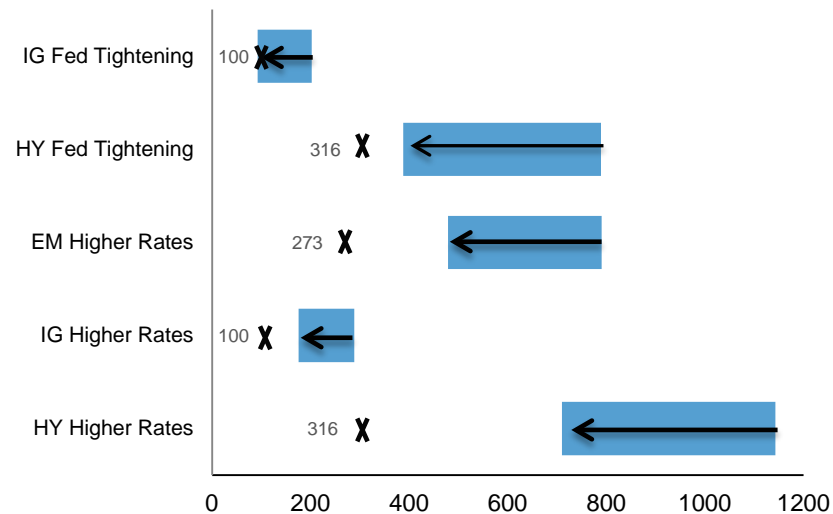
Source: BMO Global Asset Management

Monetary policy: where are we in this cycle?

Progression of rate hike cycles since 1990

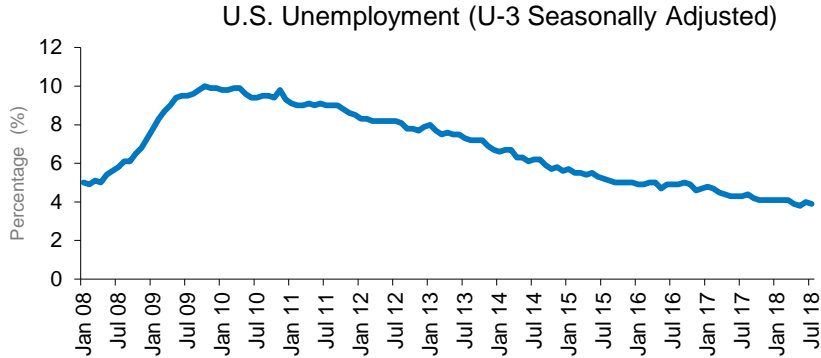


Historical Spread Movement

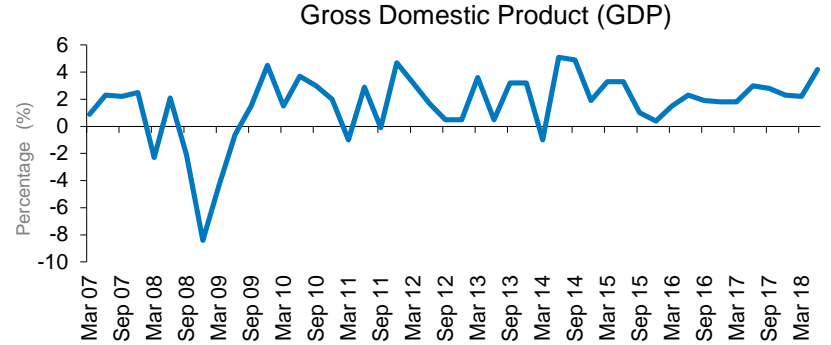


Note: IG is Investment Grade; HY is High Yield; EM is Emerging Market
Sources: Barclays, BofA ML, BMO Global Asset Management

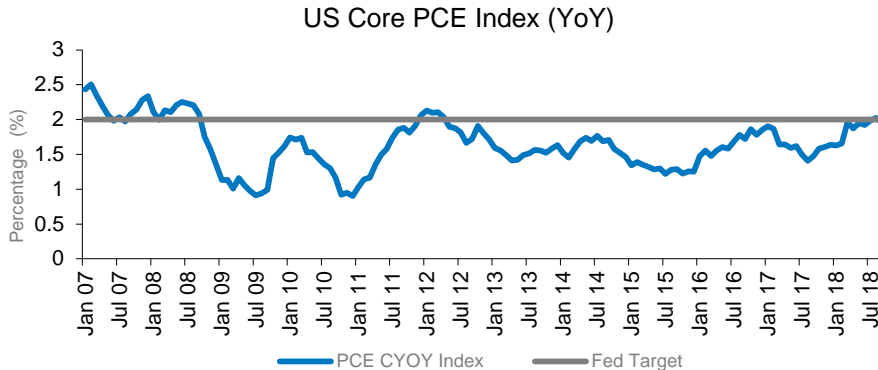
Monetary policy: a look at drivers



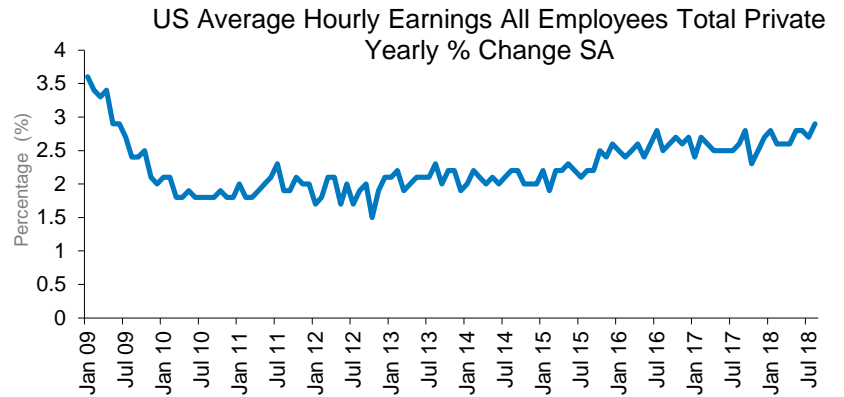
Source: Bureau of Labor Statistics



Source: Bureau of Economic Analysis



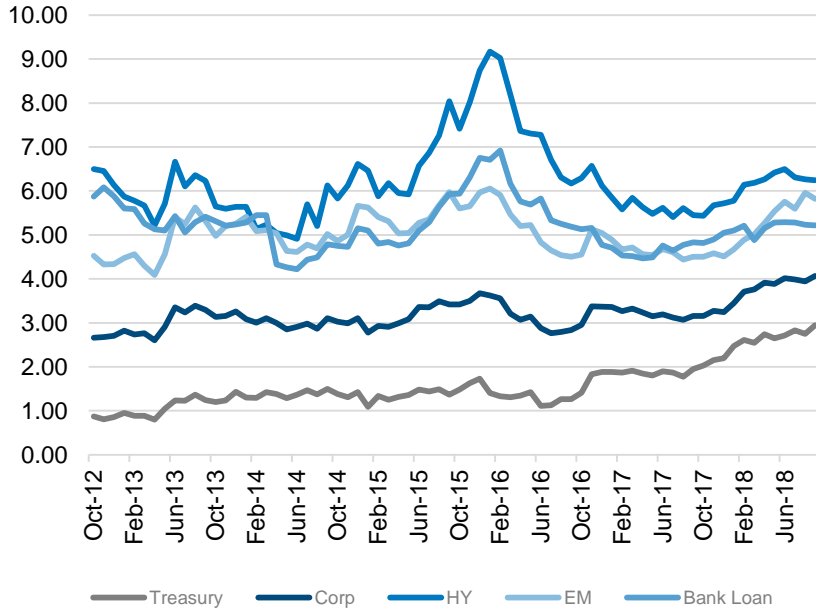
Source: Bureau of Labor Statistics



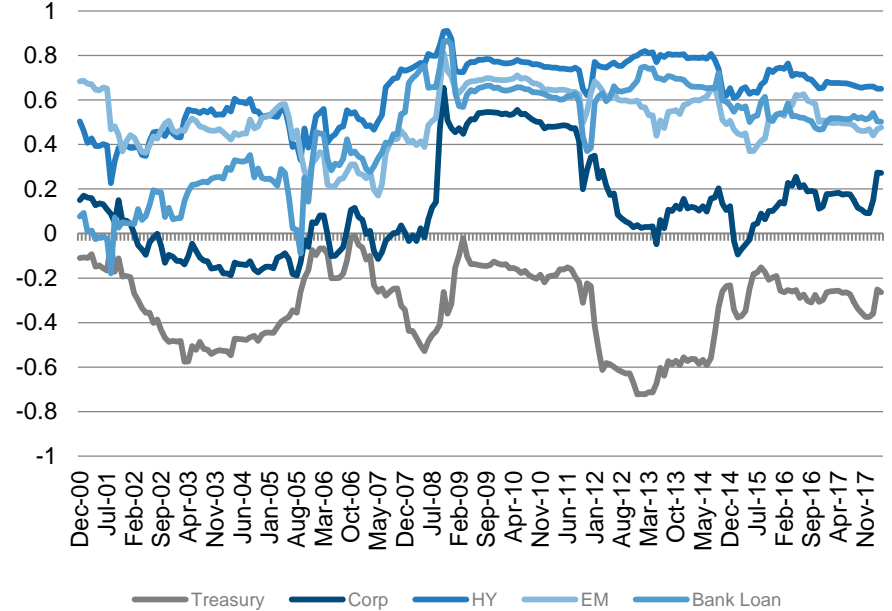
Source: Bureau of Labor Statistics

Balancing yields with diversification

Fixed Income Yields by Sector



Equity Correlation by Fixed Income Sector

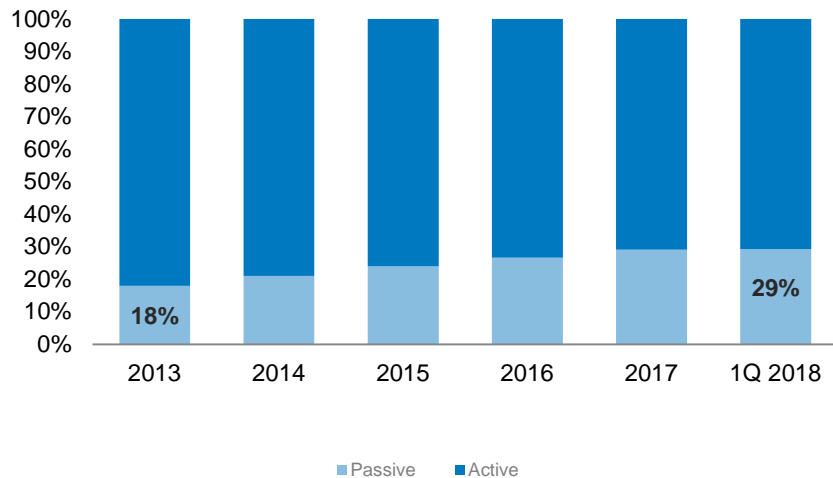


Sources: Bloomberg, BMO Global Asset Management

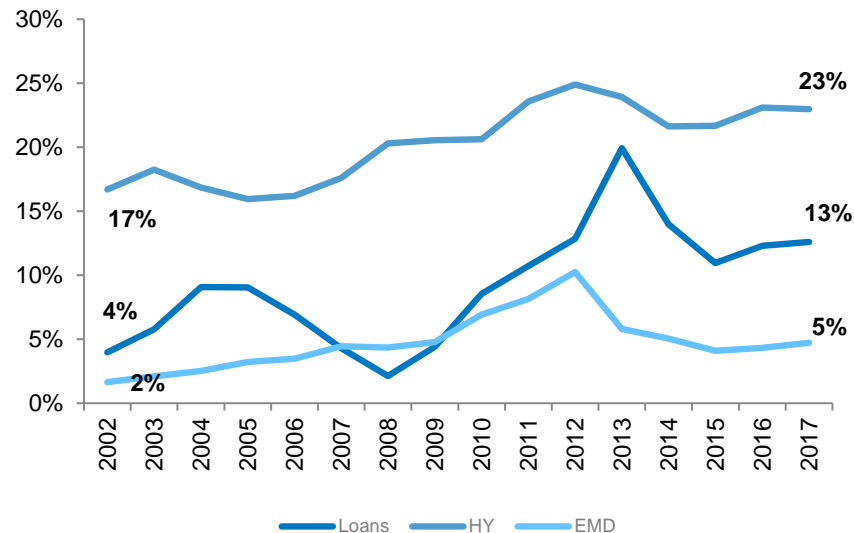
Sources: Bloomberg, BMO Global Asset Management

Structural changes within fixed income

Mix of Active vs Passive



Retail Ownership of Fixed Income Sectors

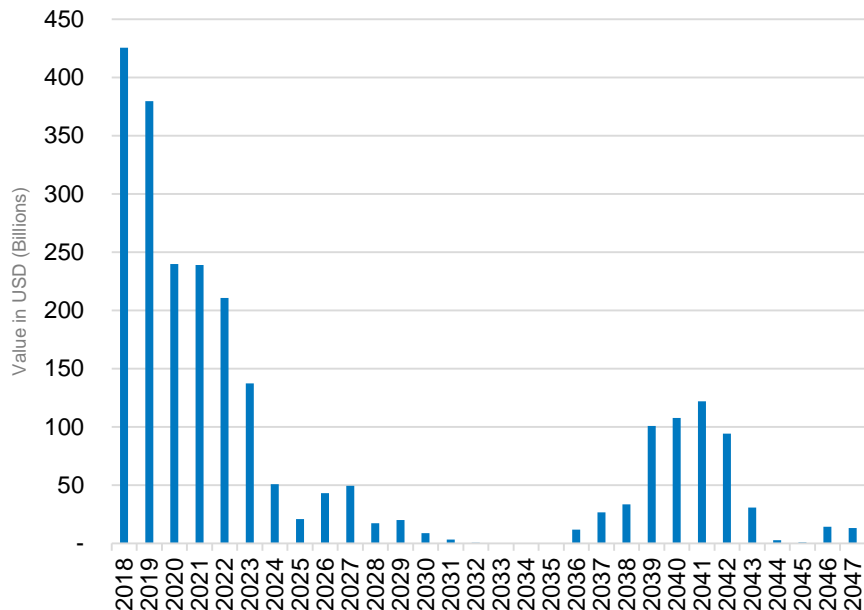


Sources: Barclays, Morningstar, BMO Global Asset Management

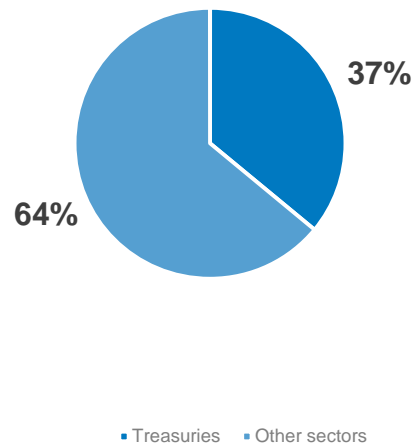
Sources: Barclays, Morningstar, S&P LCD, BMO Global Asset Management

Implications of unwinding the Fed balance sheet

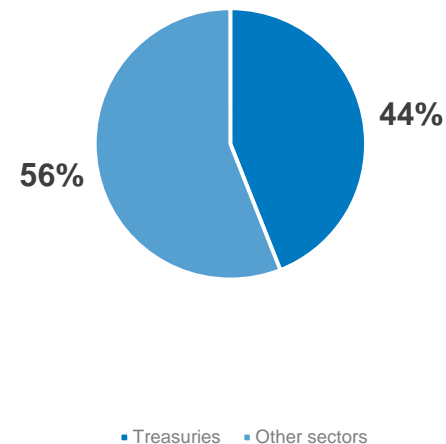
Treasury Bills and Bonds Maturing from Fed Balance Sheet by Year



Current Treasury % of Agg



Adjusted for Fed Holdings - Treasury % of Agg

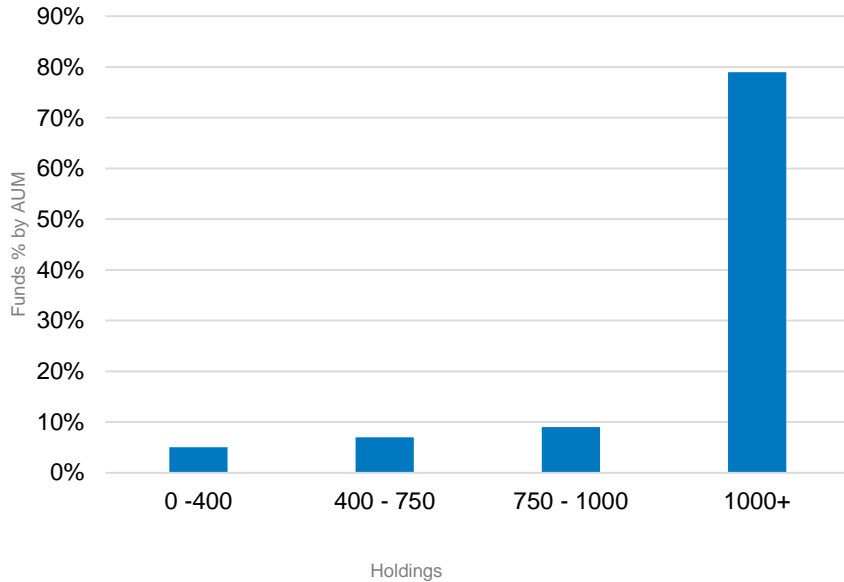


Source: NY Fed

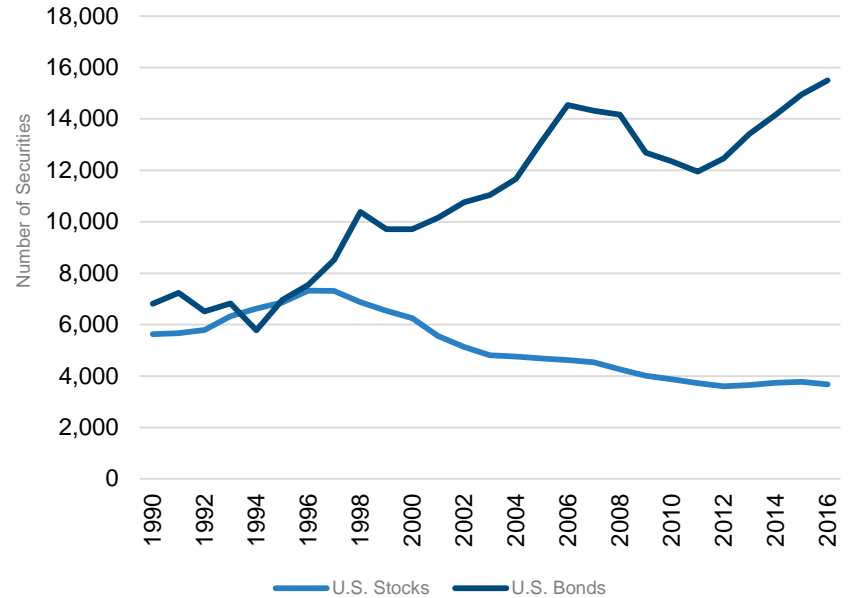
Sources: Barclays, BMO Global Asset Management

Selection opportunity and approach

Fund Holdings in Intermediate Term Bond Category



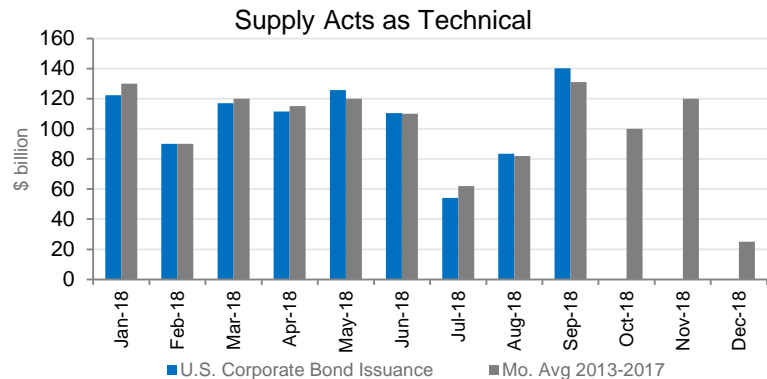
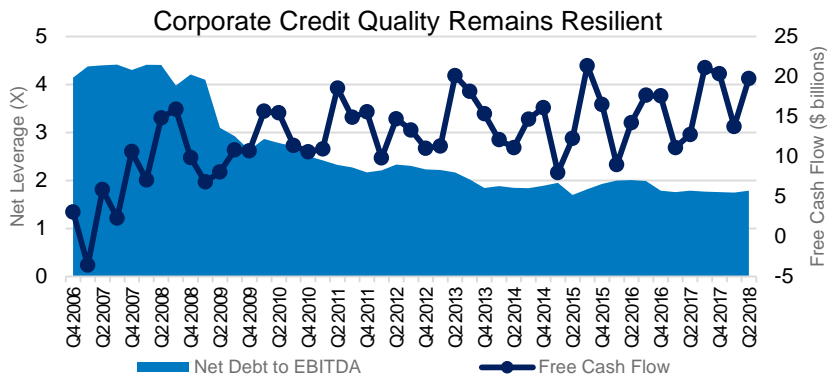
Number of Public Securities Since 1990



Sources: Morningstar, BMO Global Asset Management

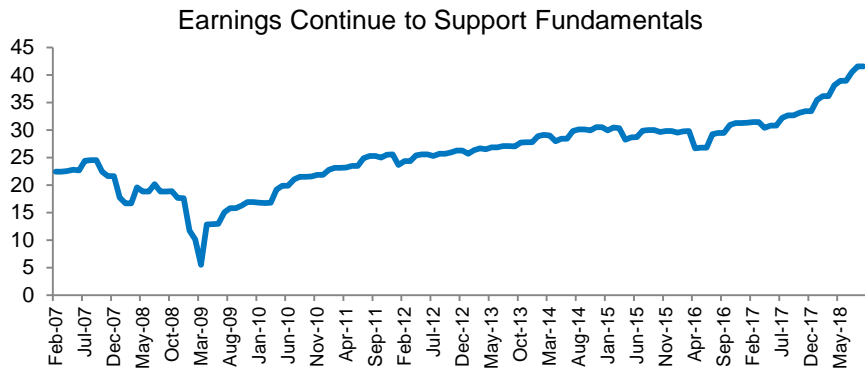
Sources: Doidge. "U.S. Listing Gap," Credit Suisse, Bloomberg Barclays

Health of corporates: balancing fundamentals and technicals

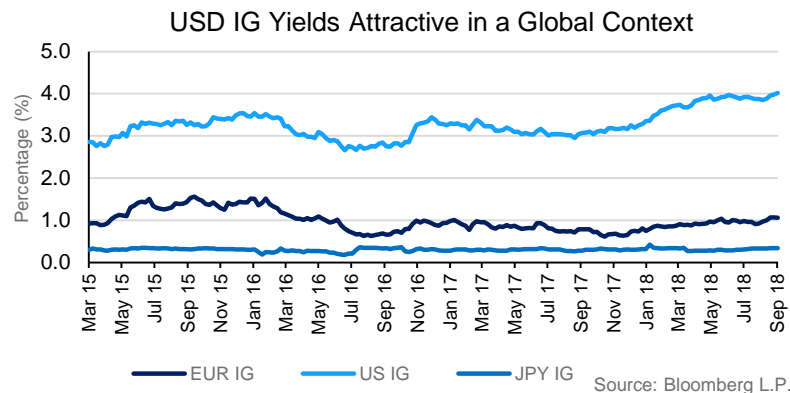


Source: Russell

Sources: SIFMA, Wells Fargo.



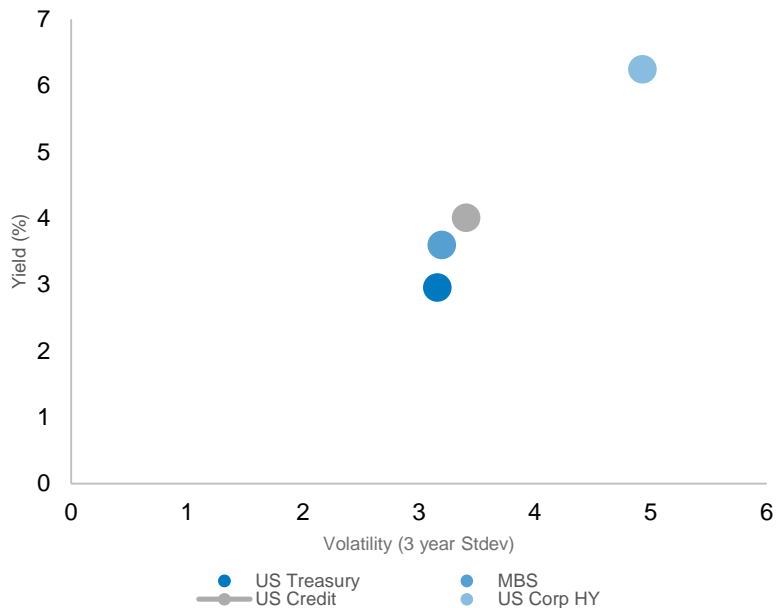
Source: S&P



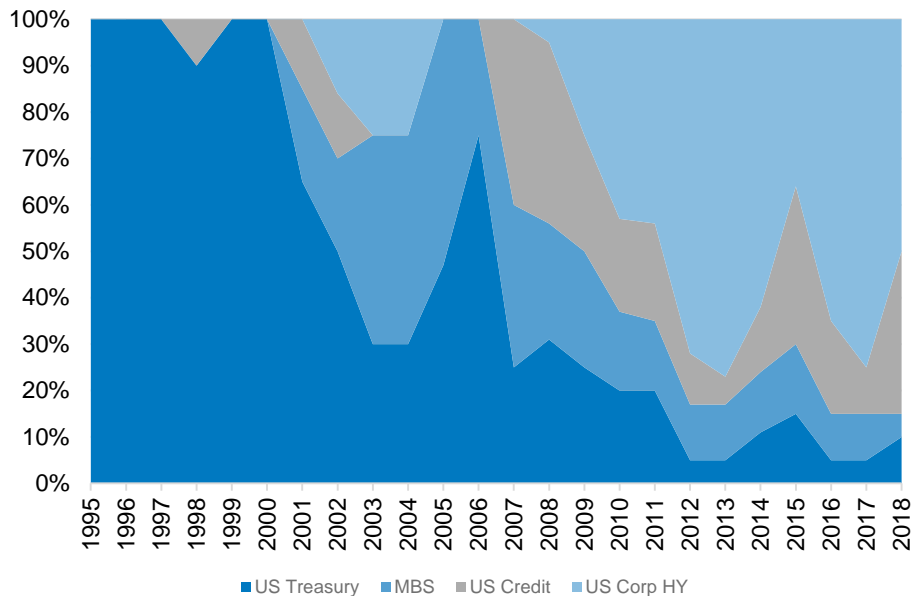
Source: Bloomberg L.P.

Yield trends and implications

Yield vs. Volatility



Sector allocation to generate 5% yield



Sources: Barclays; data as of 9/30/2018

Note: MBS is Mortgage Backed Securities; HY is High Yield

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Disclosures

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PCE CYOY index is US Personal Consumption Expenditure Core Price Index Year over Year seasonally adjusted. The Index tracks overall price changes for goods and services purchased by consumers excluding food and energy purchases.

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