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The Hong Kong Retirement Schemes Association

# Expand your possibilities around fixed income investing

20 OCTOBER, 2022 (THURSDAY)  
10:30 – 11:30 AM



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ASSET MANAGEMENT  
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T.RowePrice 普徠仕

泰康  
Taikang  
泰康資產(香港)  
Taikang Asset (HK)

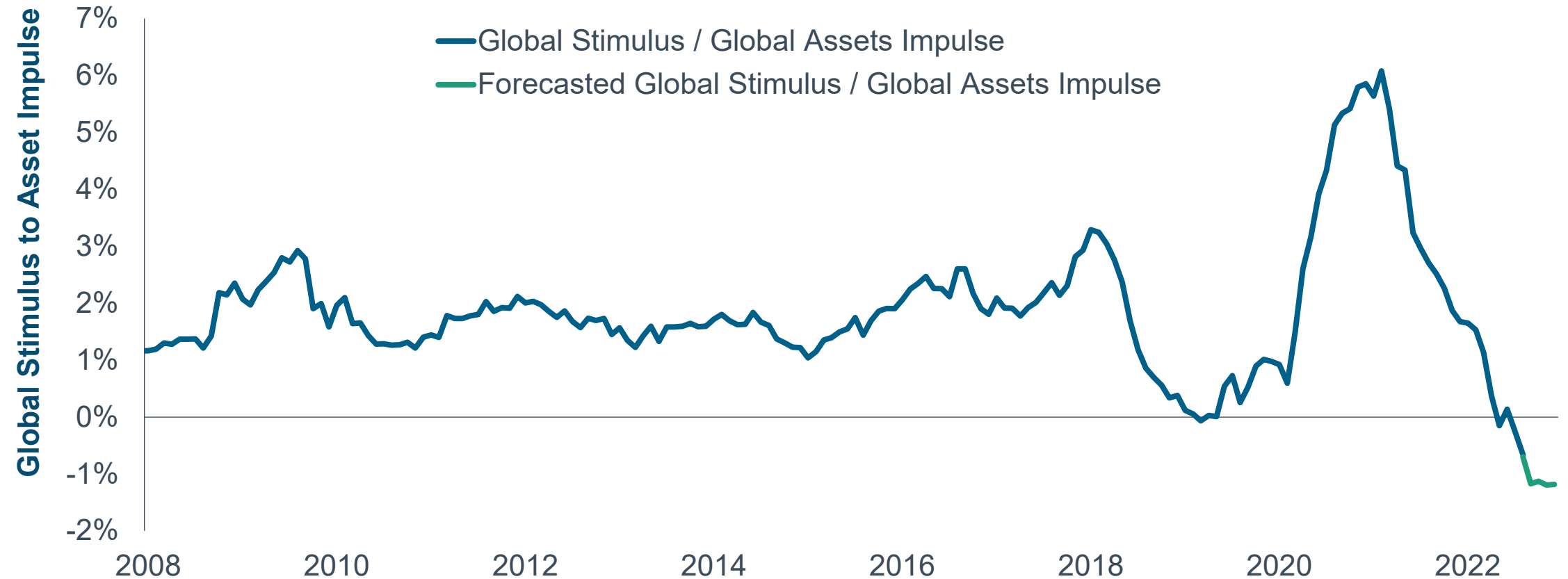




# THE NEXT NEW NORMAL

# Stimulus has disappeared — you are on your own

As of 30 September 2022

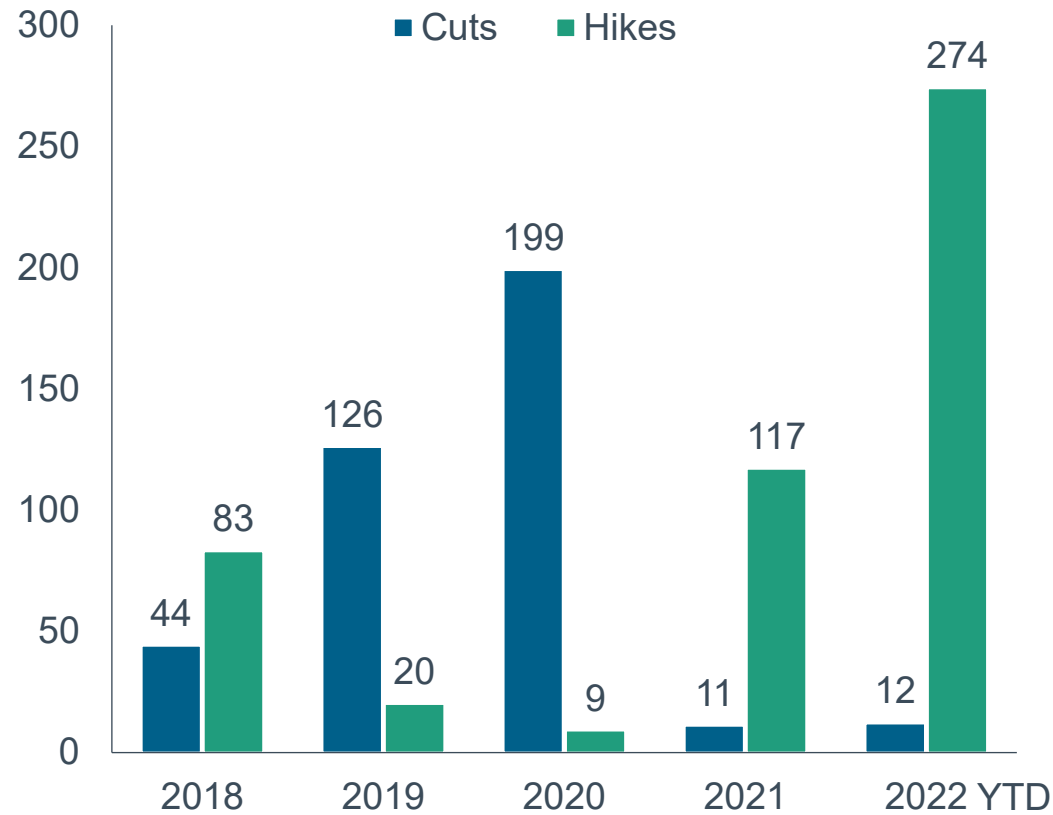


There is no guarantee that any forecasts made will come to pass.  
Source: Bloomberg Finance L.P.  
Analysis by T. Rowe Price.

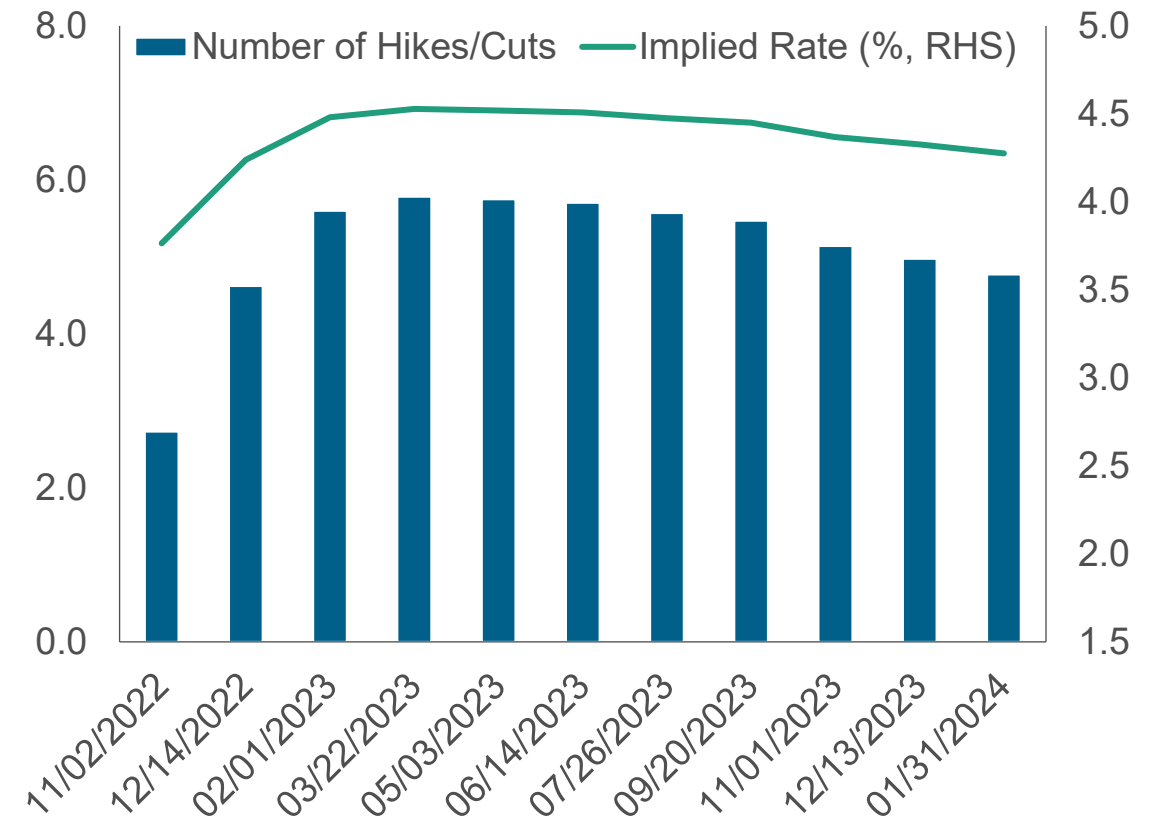
# A hiking party. 2023 hangover?

As of 30 September 2022

## Global Monetary Policy Actions



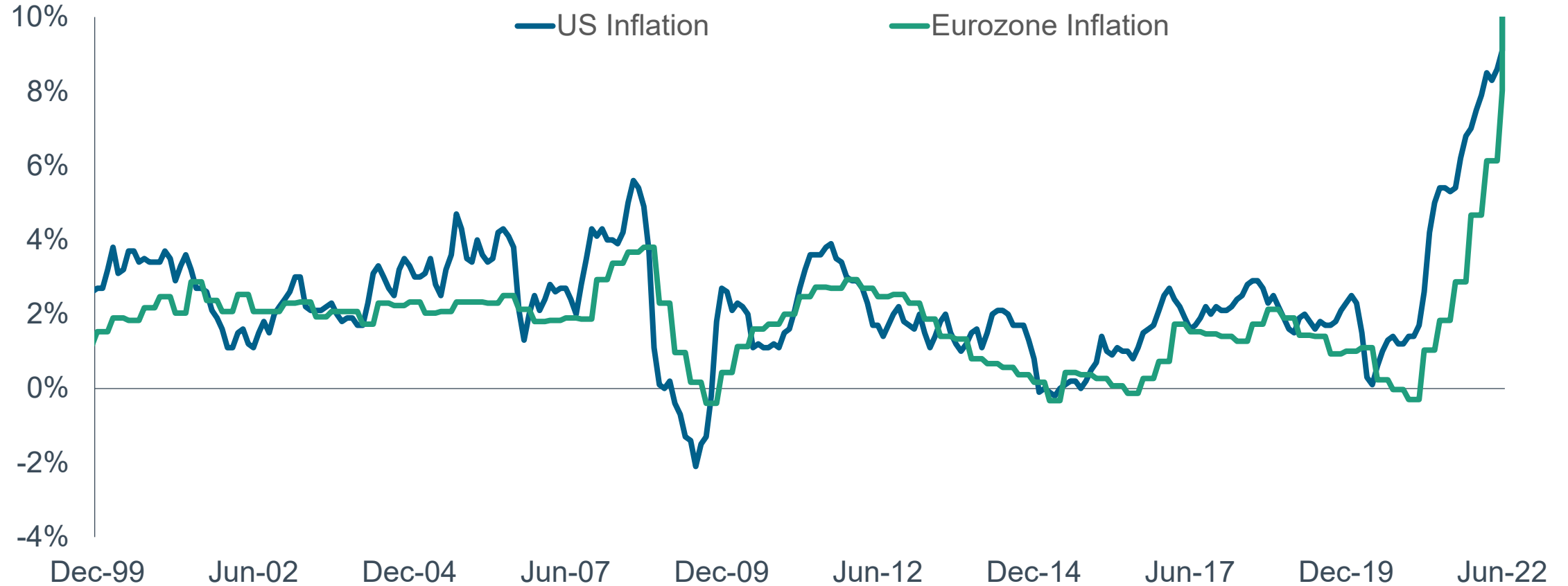
## U.S. Implied Policy Rate Curve



Sources: CB Rates and Bloomberg. Analysis by T. Rowe Price.  
 The 'Monetary Policy Actions' chart shows the number of rate cuts and rate hikes made by all central banks globally.  
 Right chart: For informational purposes only. Actual results may differ materially from expectations.

# Inflation — more broadly based...

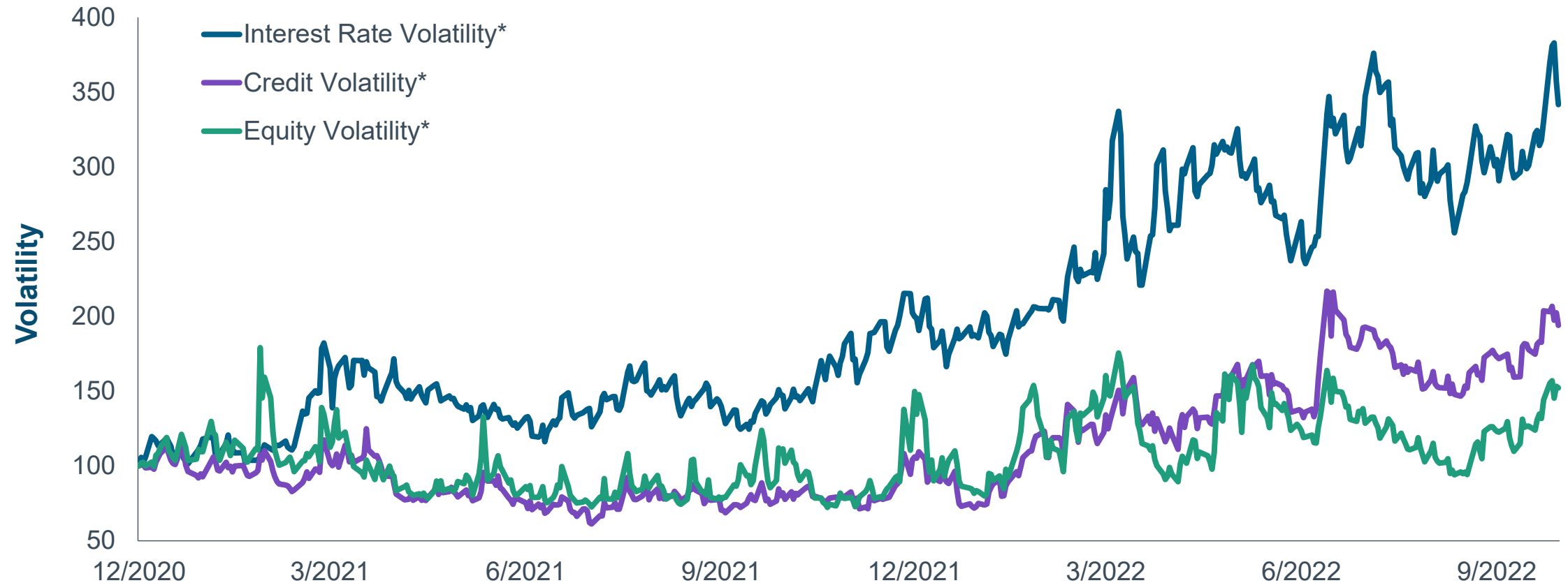
As of 30 September 2022



Source: Bloomberg Finance L.P.

# Volatility will be a constant — adjust expectations?

As of 30 September 2022



**Past performance is not a reliable indicator of future performance.**

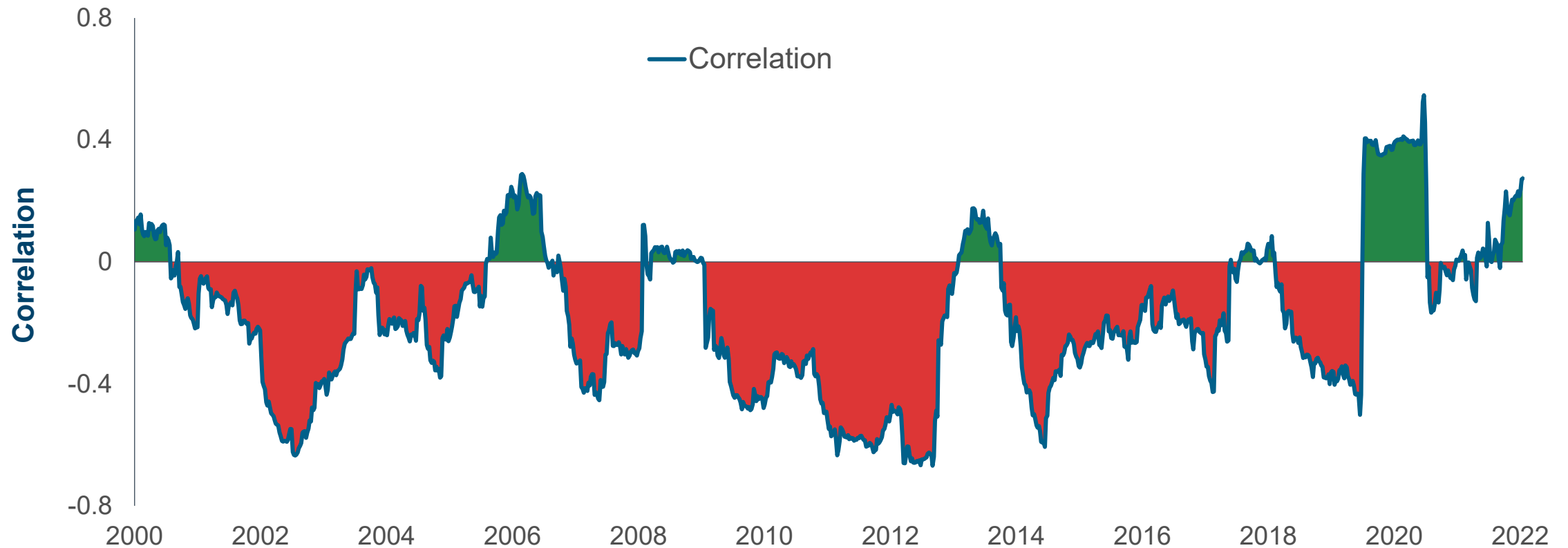
\*Rebased to 100 as of 12/01/2020. Interest Rate Volatility = MOVE index represents implied volatility on 1-month Treasury options. Equity Volatility = VIX index represents expected volatility of S&P500. Credit Volatility = High Yield (HY) 3-month implied volatility represents expected future volatility of iShares iBoxx High Yield Corporate ETF. The ETF is shown for illustrative purposes only to demonstrate HY volatility. It is not intended to be investment advice or a recommendation to take any particular investment action.

Source: Bloomberg Finance L.P. Please see Additional Disclosures page for information about this Bloomberg information.

# What's your hedge?

As of 30 September 2022

## Rolling 52-week Correlation of the S&P 500 to Bloomberg U.S. Aggregate Index



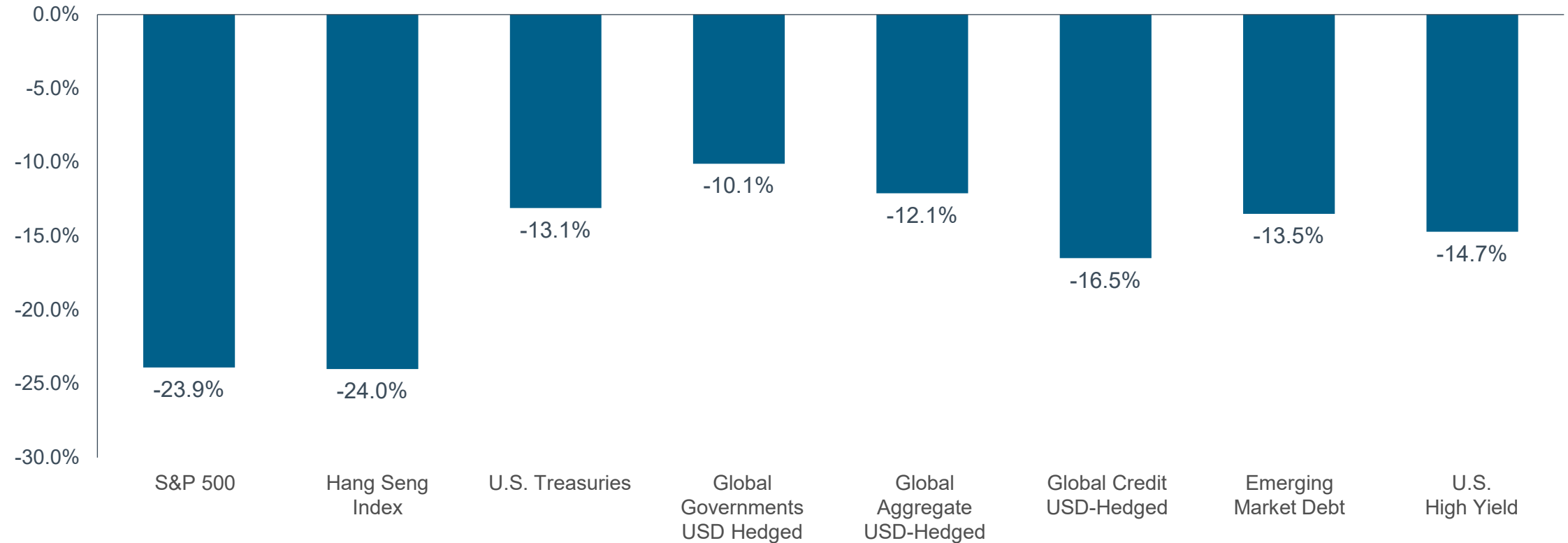
**Past performance is not a reliable indicator of future performance.**

Source: Bloomberg Index Services Limited for both S&P 500 and Bloomberg U.S. Aggregate Index data.  
Please see the Additional Disclosures page for more information about this S&P 500 and Bloomberg information.

# Nowhere to hide

As of 30 September 2022

## Market Index Returns (USD-hedged %) – Year to Date



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For illustrative purposes only. It is not intended to be investment advice or a recommendation to take any particular investment action.

Sources for S&P 500 and Hang Seng Bank: Bloomberg. Source for all Bloomberg index data: Bloomberg Index Services Limited. U.S. Treasuries=Bloomberg US Treasury Total Return Unhedged USD; Global Governments USD Hedged=Bloomberg Global Aggregate-Government Index; Global Aggregate USD-Hedged=Bloomberg Global-Aggregate Total Return Index Value Hedged USD; Global Credit USD-Hedged=Bloomberg Global Aggregate Credit Total Return Index Value Unhedged USD; Emerging Market Debt=Bloomberg Emerging Markets Local Currency Government Index; U.S. High Yield=Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD.



# What can we do?

As of 30 June 2022

**Problem:**            **The post Global Financial Crisis era of markets is over and assumptions will be challenged**

**Potential Solution:**    **An actively managed approach that can generate performance in risk on and risk off markets...  
including when interest rates rise and are volatile**

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# A DYNAMIC APPROACH

# A Dynamic Approach

As of 30 September 2022

**Sustainable  
performance**

**Capital  
preservation**

**Diversification  
from  
risky assets**

# Potential Solution 1: Aggressively Reduce Duration

As of 30 September 2022

## Bloomberg US Treasury Indexes – Performance During Rising Yield Episodes



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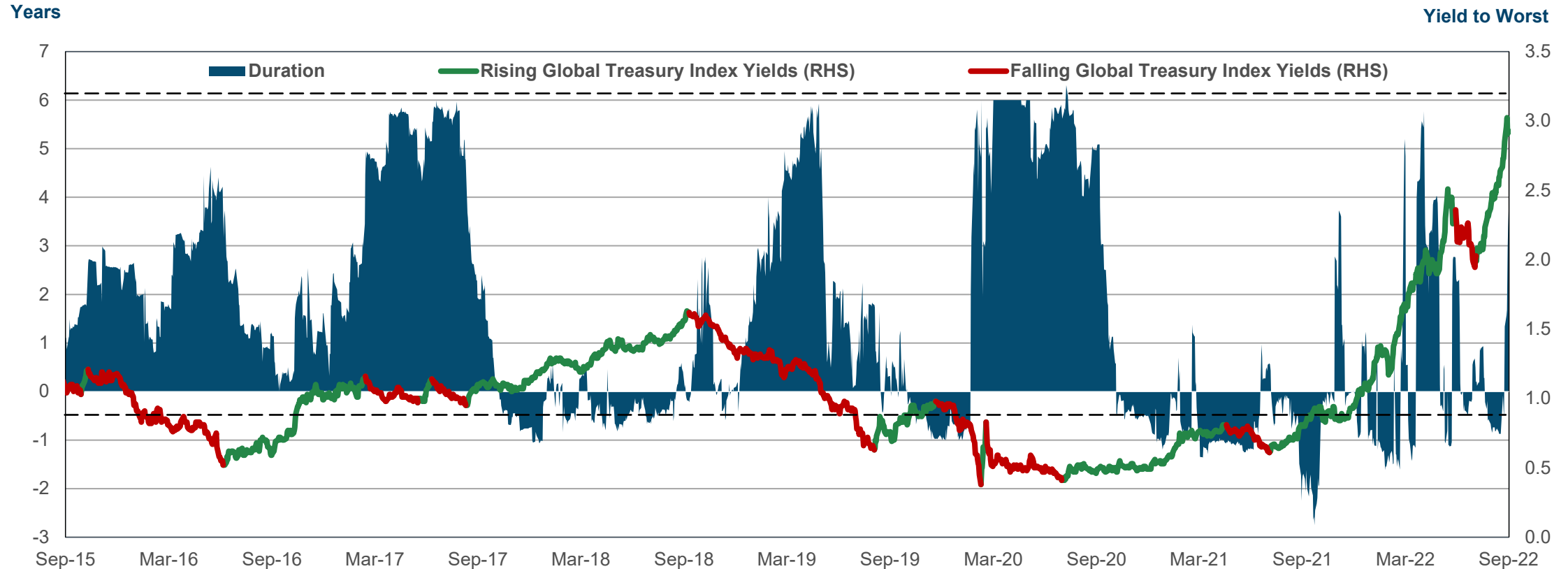
Source for Bloomberg index data: Bloomberg Index Services Limited. Analysis by T. Rowe Price.

Indexes referred to: Bloomberg Global Treasury – US Treasury 1-3yr, 3-5yr, 5-7yr, 7-10yr, 10+yr. (Local return.).

# Example 1: Dynamic Duration Management

As of 30 September 2022

## Dynamic Duration Management



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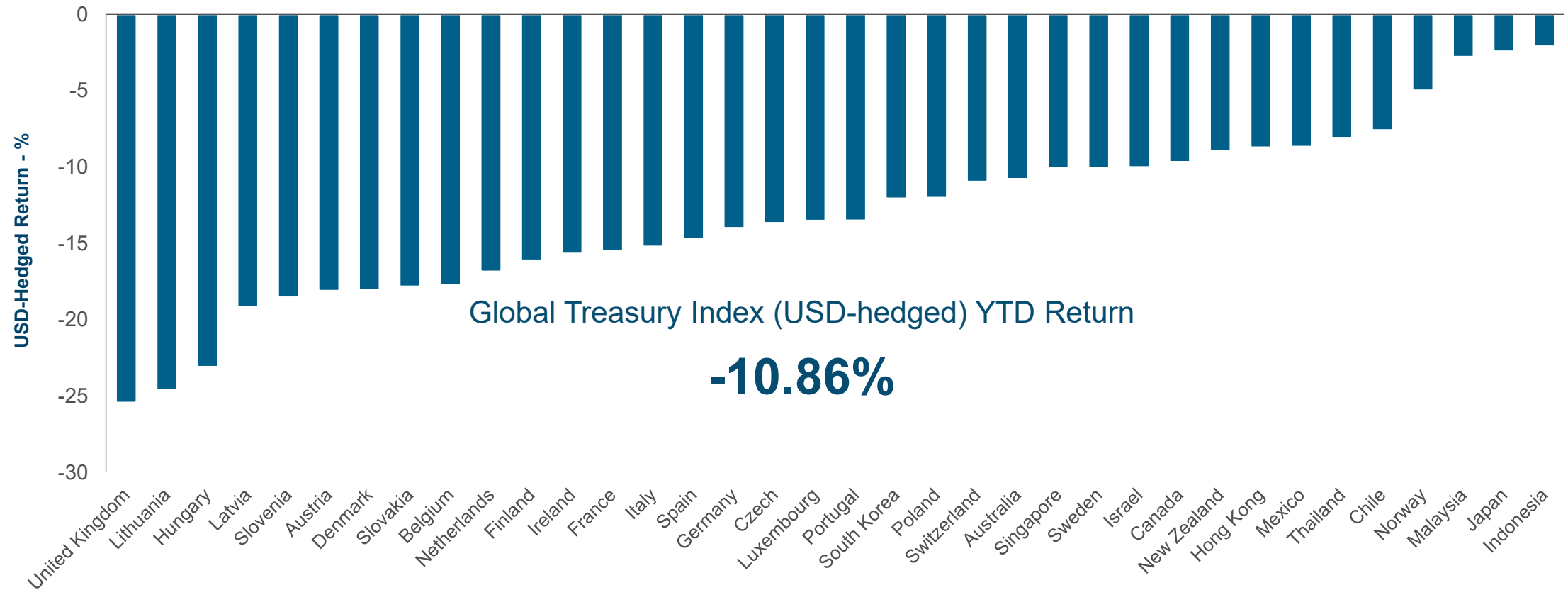
Analysis by T. Rowe Price. Source: Bloomberg Index Services Limited. Please see Additional Disclosures page for information on this Bloomberg information.

Index yield shown is for the Bloomberg Global Treasuries Index. Periods of rising / falling yields have been determined as periods of changes in yields of 15 basis points (0.15%) or greater.

# Potential Solution 2: Selective Country Allocation

As of 30 September 2022

## Bloomberg Global Treasury Index – Country Returns (USD-hedged %) – Year to Date



**Past performance is not a reliable indicator of future performance.**

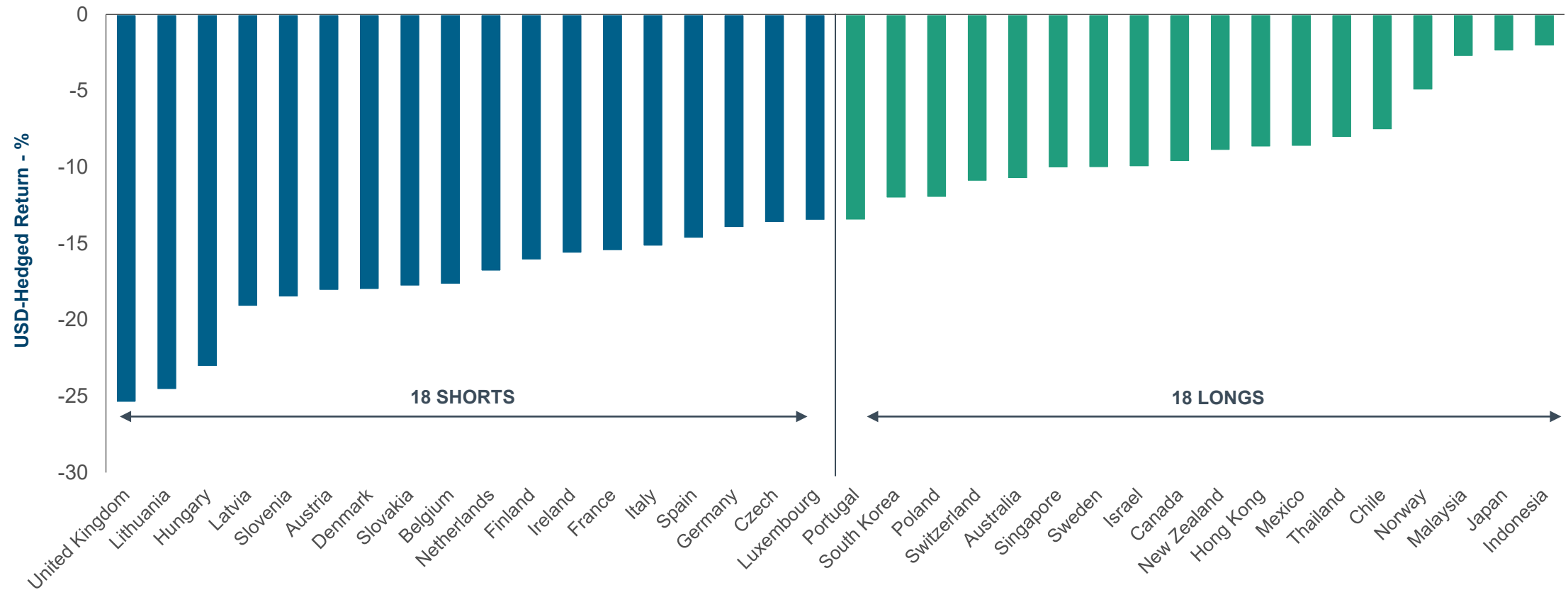
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Source for Bloomberg index data: Bloomberg Index Services Ltd.

# Potential Solution 2: Selective Country Allocation

As of 30 September 2022

## Bloomberg Global Treasury Index – Country Returns (USD-hedged %) – Year to Date



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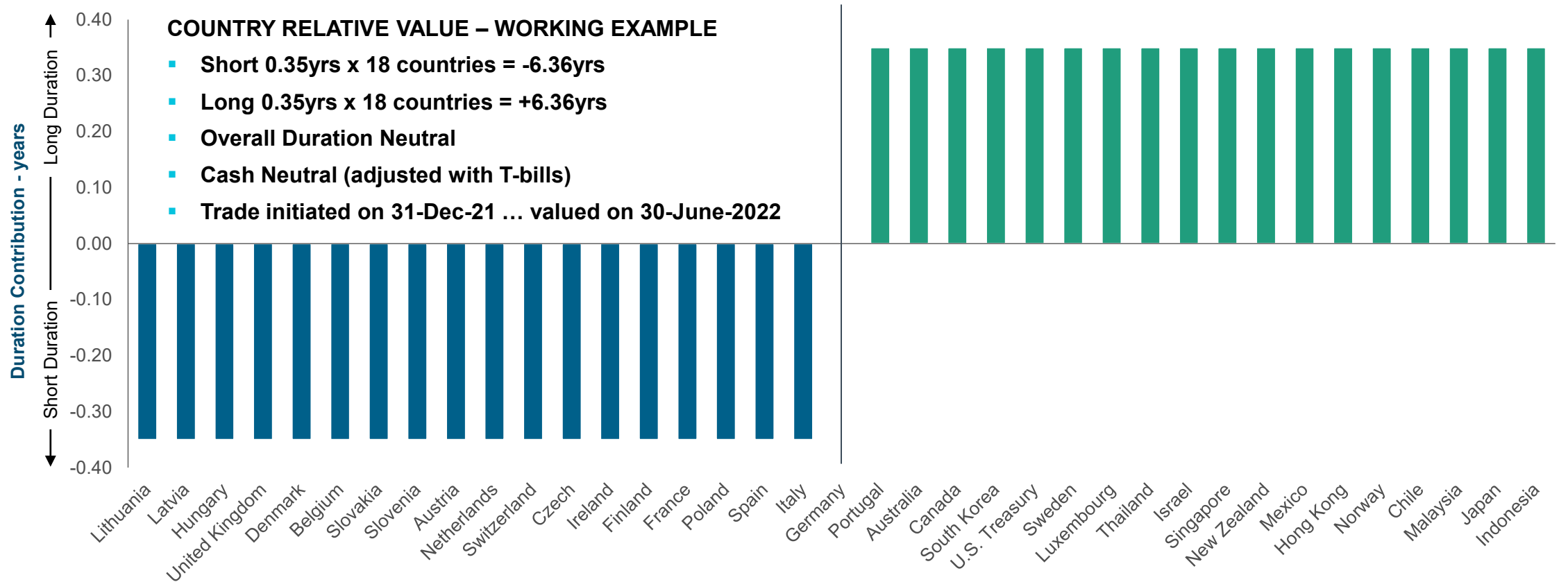
For illustrative, informational purposes only. This is not intended to be investment advice or a recommendation to take any particular investment action.

Source for Bloomberg index data: Bloomberg Index Services Ltd.

# Potential Solution 2: Selective Country Allocation

As of 30 September 2022

## Bloomberg Global Treasury Index – Country Relative Value Working Example



For illustrative, informational purposes only. This is not intended to be investment advice or a recommendation to take any particular investment action. The analysis shown above is hypothetical and is based on subjective estimates about market environments that may never occur. The results are based on the historical performance of each underlying countries within the Bloomberg Global Treasury Index from 31 December 2021 to 30 June 2022. This material does not reflect the actual returns of any portfolio/strategy and does not guarantee future result. Indices have limitations due to materially different characteristics from an actual investment portfolio in terms of security holdings, sector weightings, volatility, and asset allocation. Therefore, returns of a portfolio may differ from those of the index. Management fees, transaction costs, taxes, and potential expenses are not considered and would reduce returns. Projected returns can be conditional on economic scenarios; in the event a particular scenario comes to pass, **actual results may differ materially from projections.**

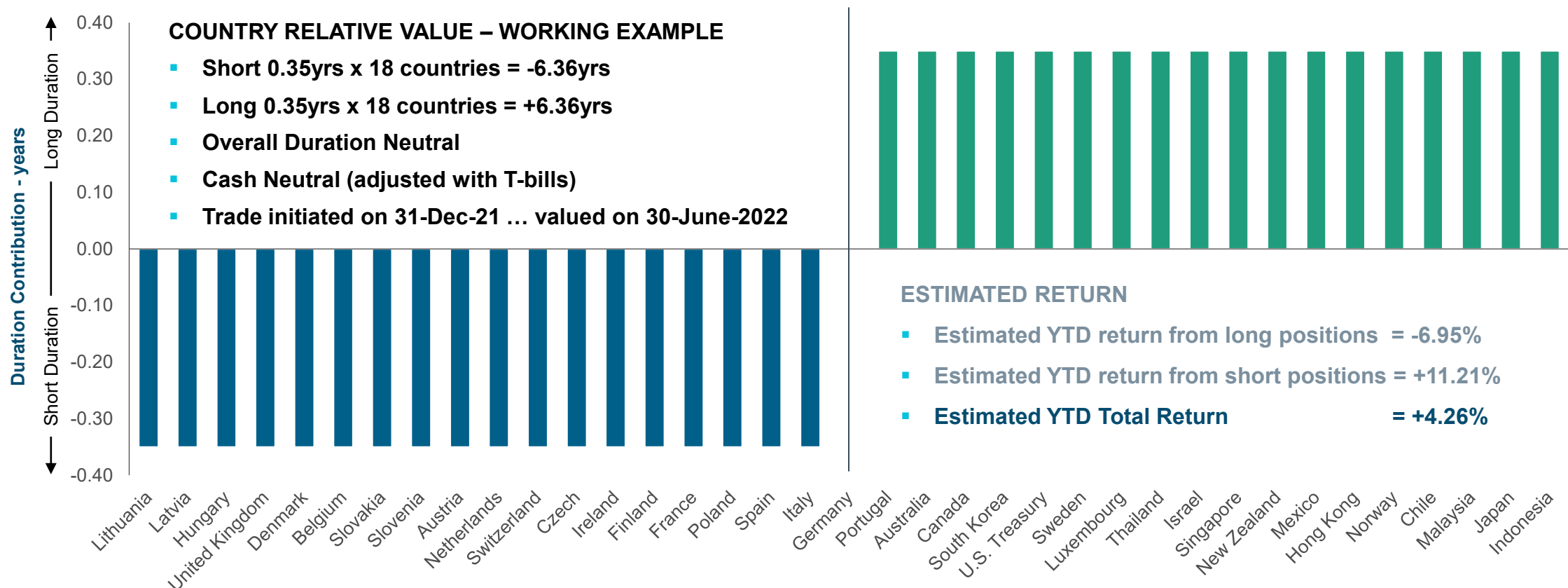
Source for Bloomberg index data: Bloomberg Index Services Ltd.



# Potential Solution 2: Selective Country Allocation

As of 30 September 2022

## Bloomberg Global Treasury Index – Country Relative Value Working Example



**Past performance (actual or projected) is not a reliable indicator of future performance.**

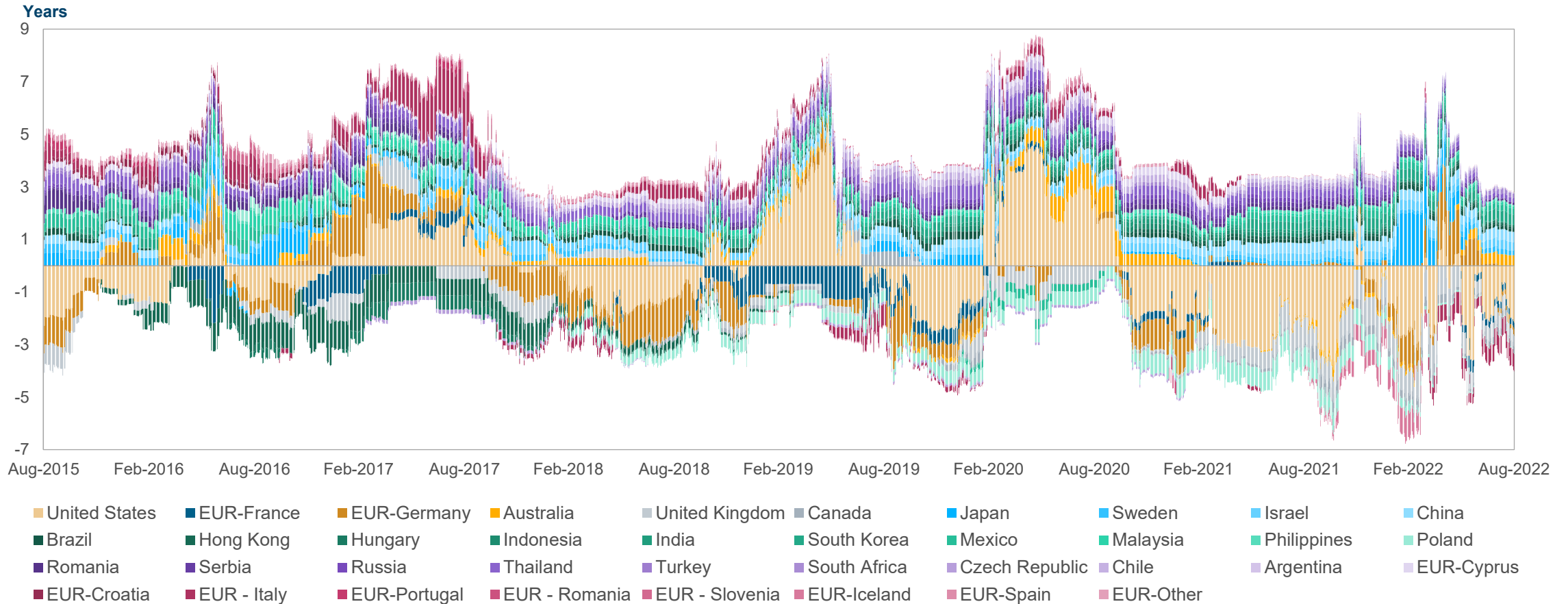
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Source for Bloomberg index data: Bloomberg Index Services Ltd.

# Example 2: Dynamic Country Allocation

As of 30 August 2022

## Country Selection – Relative Value Opportunities

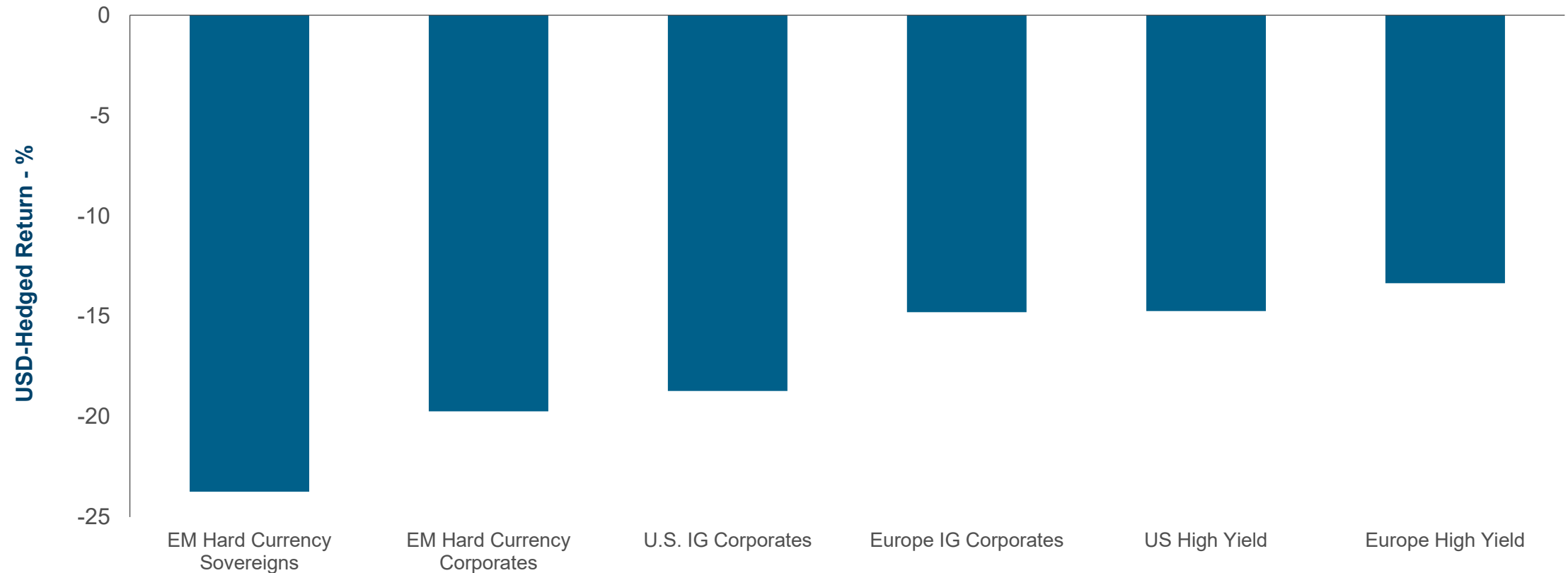


For illustrative purposes only. It is not intended to be investment advice or a recommendation to take any particular investment action.  
 Classified by issue currency.  
 Analysis by T. Rowe Price.

# Potential Solution 3: Hedging Approach

As of 30 September 2022

## Fixed Income Returns (USD-hedged %) – Year to Date



**Past performance is not a reliable indicator of future performance.**

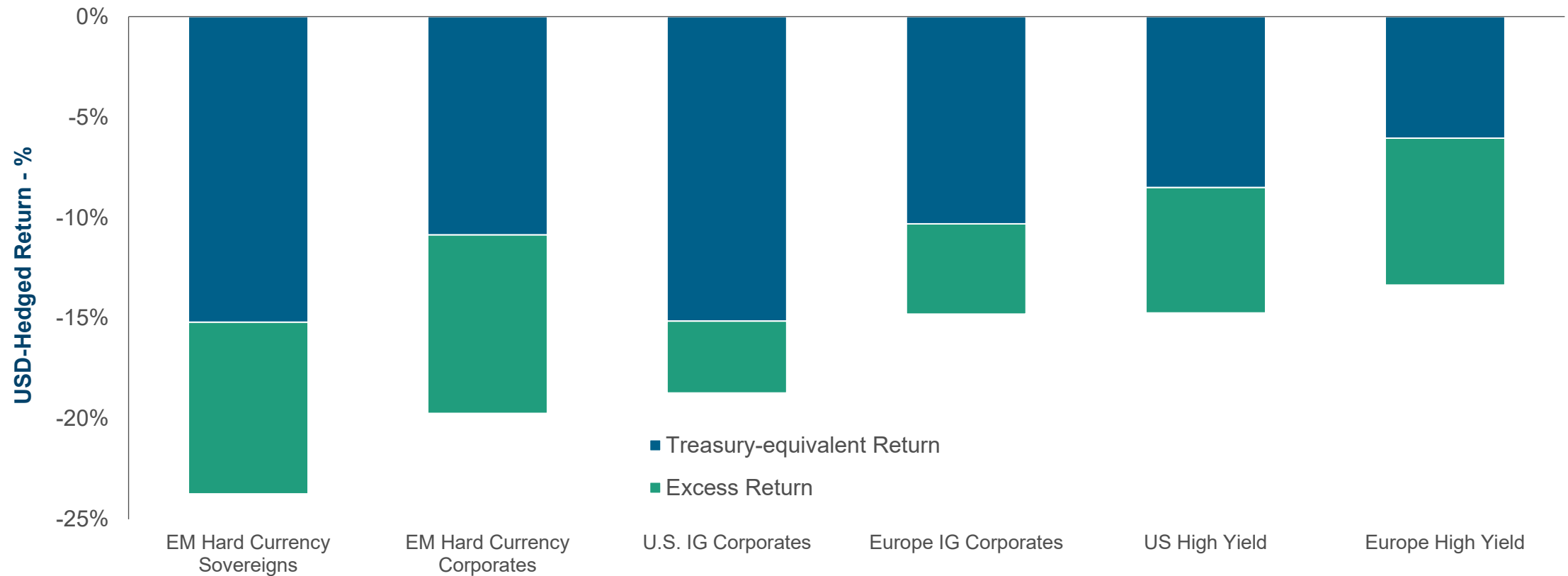
For illustrative, informational purposes only. This is not intended to be investment advice or a recommendation to take any particular investment action.

Source for all Bloomberg index data: Bloomberg Index Services Ltd. Indices used (from left to right): Bloomberg EM Hard Currency Sovereign Index; Bloomberg EM Hard Currency Corporate Index; Bloomberg U.S. Investment Grade Corporate Index; Bloomberg European Investment Grade Corporate Index; Bloomberg U.S. High Yield Index; Bloomberg Europe High Yield Index.

# Potential Solution 3: Hedging Approach

As of 30 September 2022

## Fixed Income Returns (USD-hedged %) – Year to Date



**Past performance is not a reliable indicator of future performance.**

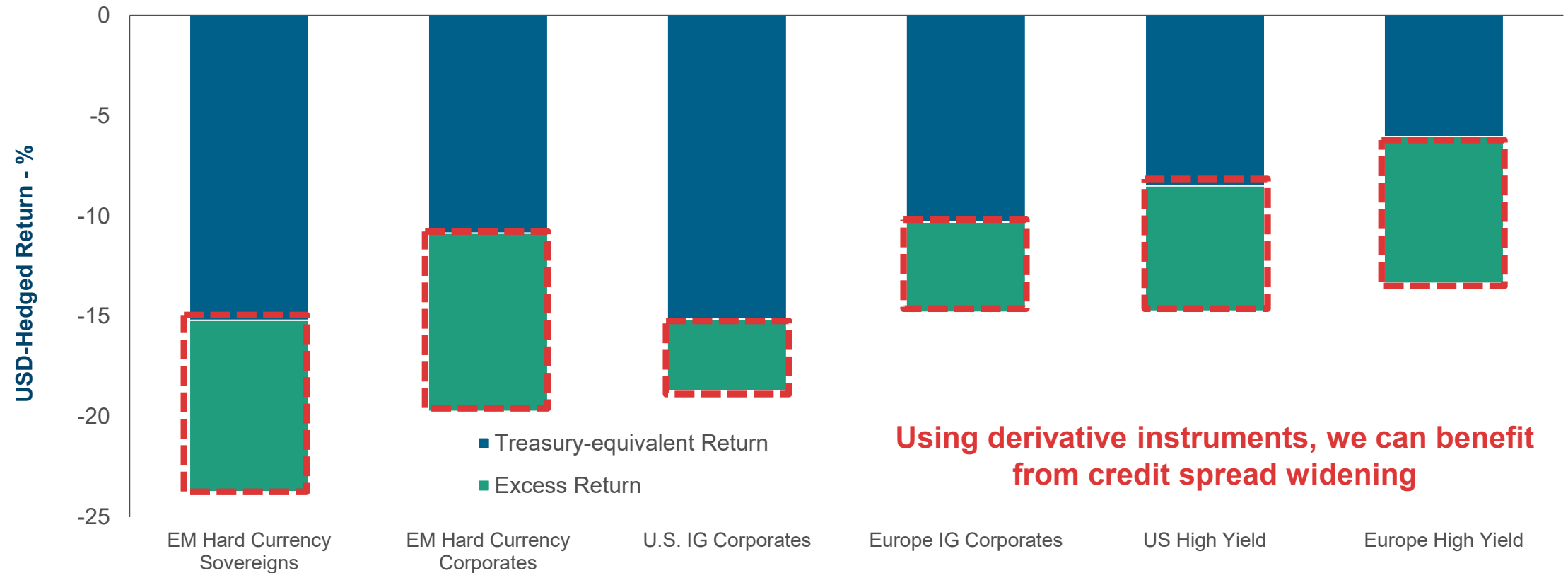
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Source for all Bloomberg index data: Bloomberg Index Services Ltd. Indices used (from left to right): Bloomberg EM Hard Currency Sovereign Index; Bloomberg EM Hard Currency Corporate Index; Bloomberg U.S. Investment Grade Corporate Index; Bloomberg European Investment Grade Corporate Index; Bloomberg U.S. High Yield Index; Bloomberg Europe High Yield Index.

# Potential Solution 3: Hedging Approach

As of 30 September 2022

## Fixed Income Returns (USD-hedged %) – Year to Date



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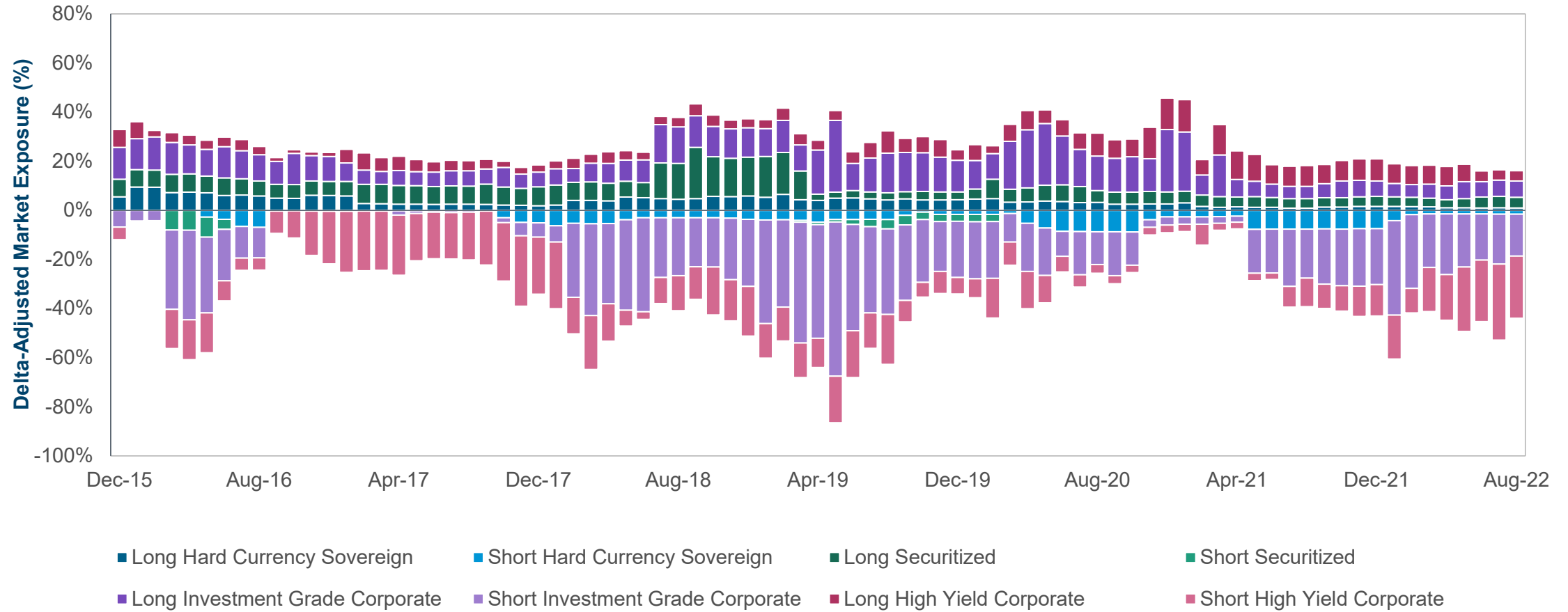
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# Example 3: Dynamic Credit Hedging Approach

As of 30 August 2022

## Historical Delta-Adjusted Credit Exposures – Long & Short

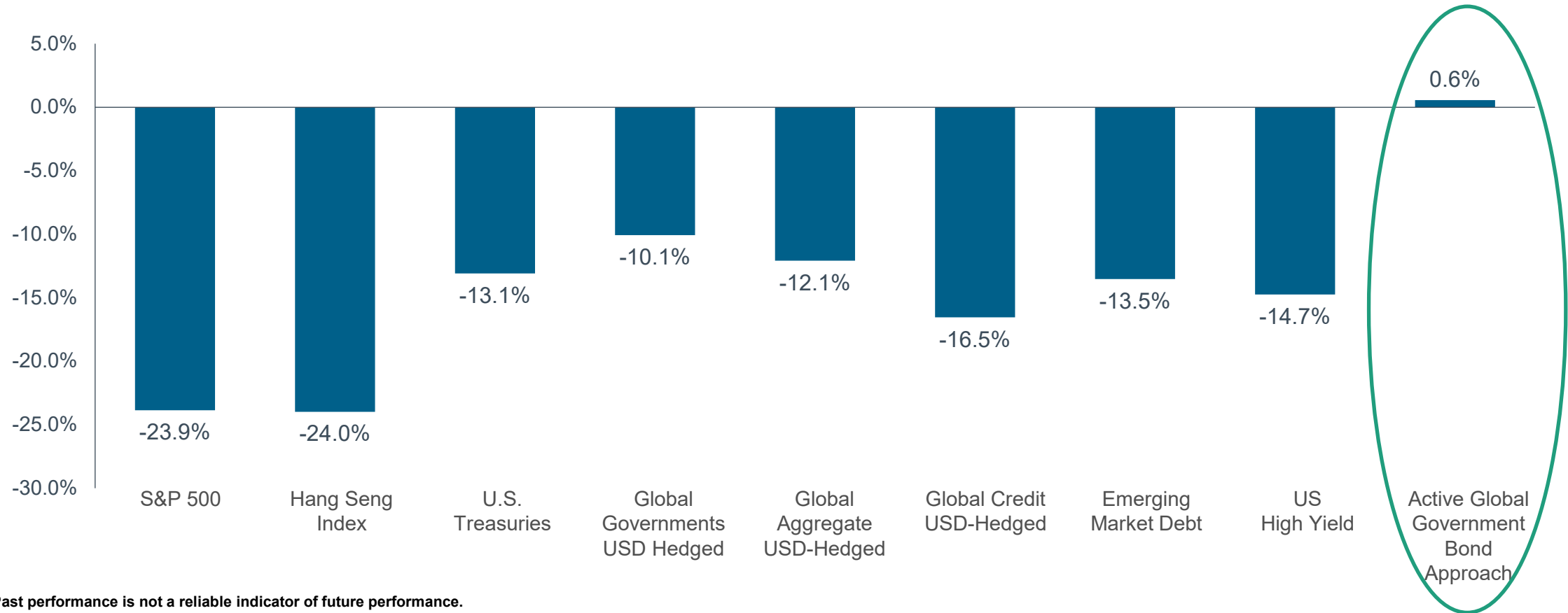


For illustrative purposes only. It is not intended to be investment advice or a recommendation to take any particular investment action.  
Analysis by T. Rowe Price.

# Active Approach: Capital Preservation

As of 30 September 2022

## Historical Returns (USD-hedged %) – Year to Date



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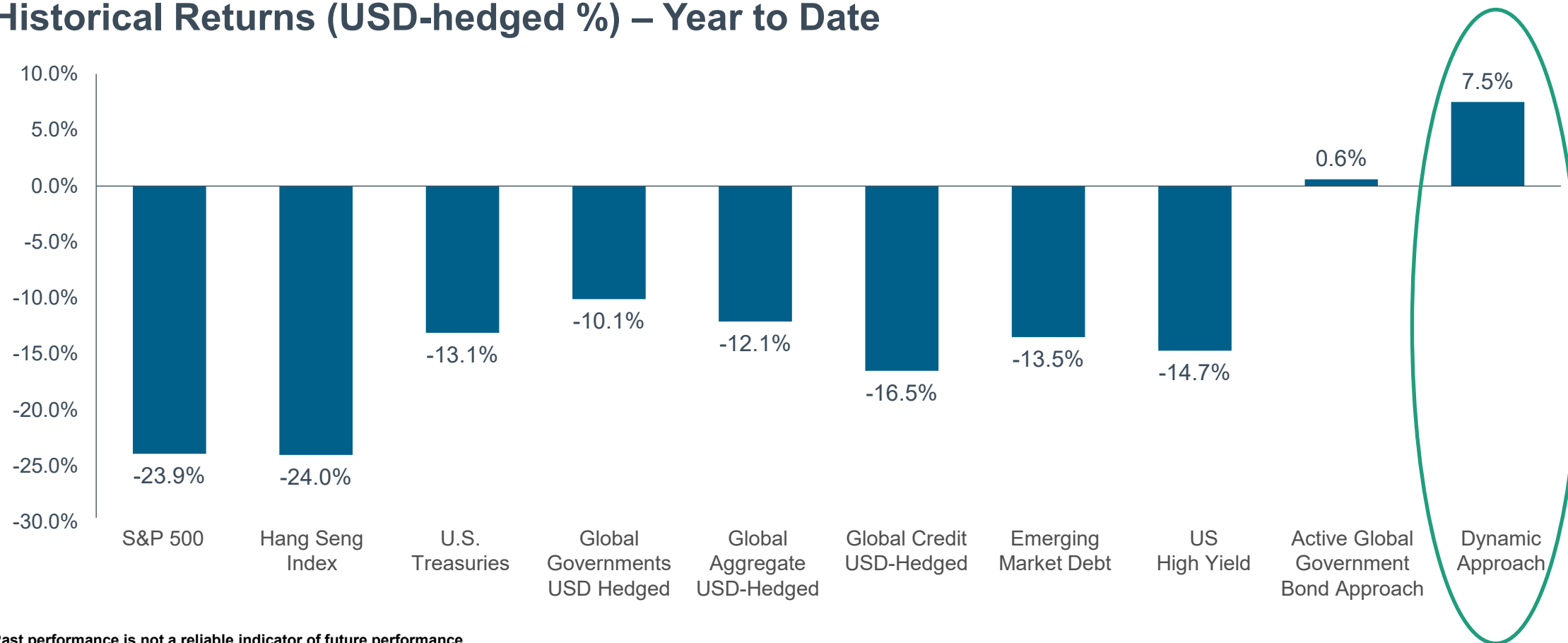
For illustrative purposes only. It is not intended to be investment advice or a recommendation to take any particular investment action.

Sources for S&P 500 and Hang Seng Bank: Bloomberg. Source for all Bloomberg index data: Bloomberg Index Services Limited. U.S. Treasuries=Bloomberg US Treasury Total Return Unhedged USD; Global Governments USD Hedged=Bloomberg Global Aggregate-Government Index; Global Aggregate USD-Hedged=Bloomberg Global-Aggregate Total Return Index Value Hedged USD; Global Credit USD-Hedged=Bloomberg Global Aggregate Credit Total Return Index Value Unhedged USD; Emerging Market Debt=Bloomberg Emerging Markets Local Currency Government Index; U.S. High Yield=Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD. Source for performance of active global government bond approach: T. Rowe Price. Performance figures are shown gross of fees. Returns would have been lower as a result of the deduction of applicable fees.

# Dynamic Approach: Solid Outperformance

As of 30 September 2022

## Historical Returns (USD-hedged %) – Year to Date



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Sources for S&P 500 and Hang Seng Bank: Bloomberg. Source for all Bloomberg index data: Bloomberg Index Services Limited. U.S. Treasuries=Bloomberg US Treasury Total Return Unhedged USD; Global Governments USD Hedged=Bloomberg Global Aggregate-Government Index; Global Aggregate USD-Hedged=Bloomberg Global-Aggregate Total Return Index Value Hedged USD; Global Credit USD-Hedged=Bloomberg Global Aggregate Credit Total Return Index Value Unhedged USD; Emerging Market Debt=Bloomberg Emerging Markets Local Currency Government Index; U.S. High Yield=Bloomberg US Corporate High Yield Total Return Index Value Unhedged USD. Source for performance of active global government bond approach and dynamic approach: T. Rowe Price. Performance figures are shown gross of fees. Returns would have been lower as a result of the deduction of applicable fees.



# Conclusion



WARNING – Rising yields can lead to significant losses in bonds



Aggressively reducing portfolio duration may help mitigate losses from rising yields



Defensive hedging techniques is required when duration fails to be a diversifier



A dynamic approach provides flexibility to navigate any environment

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