

ECB BMCG

REAL MONEY INVESTOR STRATEGIES IN A LOW-YIELD ENVIRONMENT

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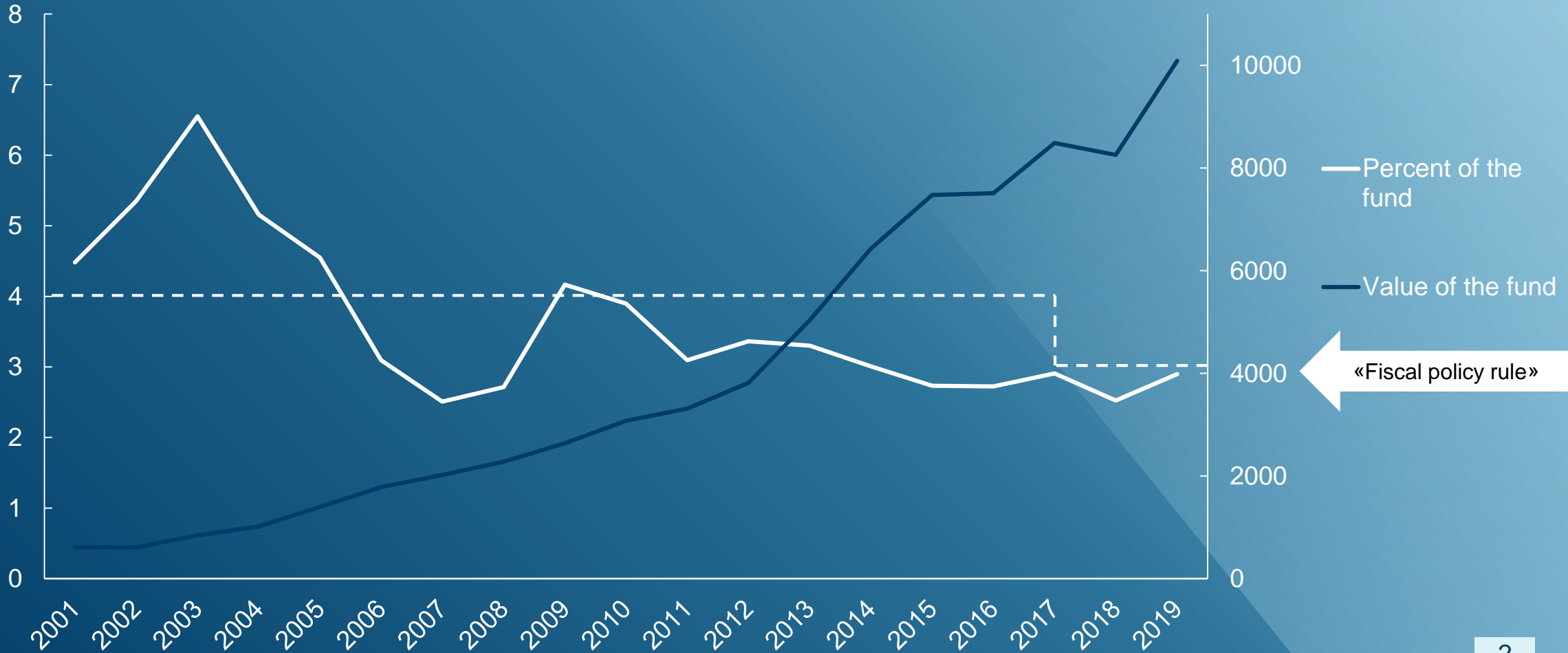
HEAD OF FIXED INCOME TRADING

NORGES BANK INVESTMENT MANAGEMENT

25 JUNE 2020

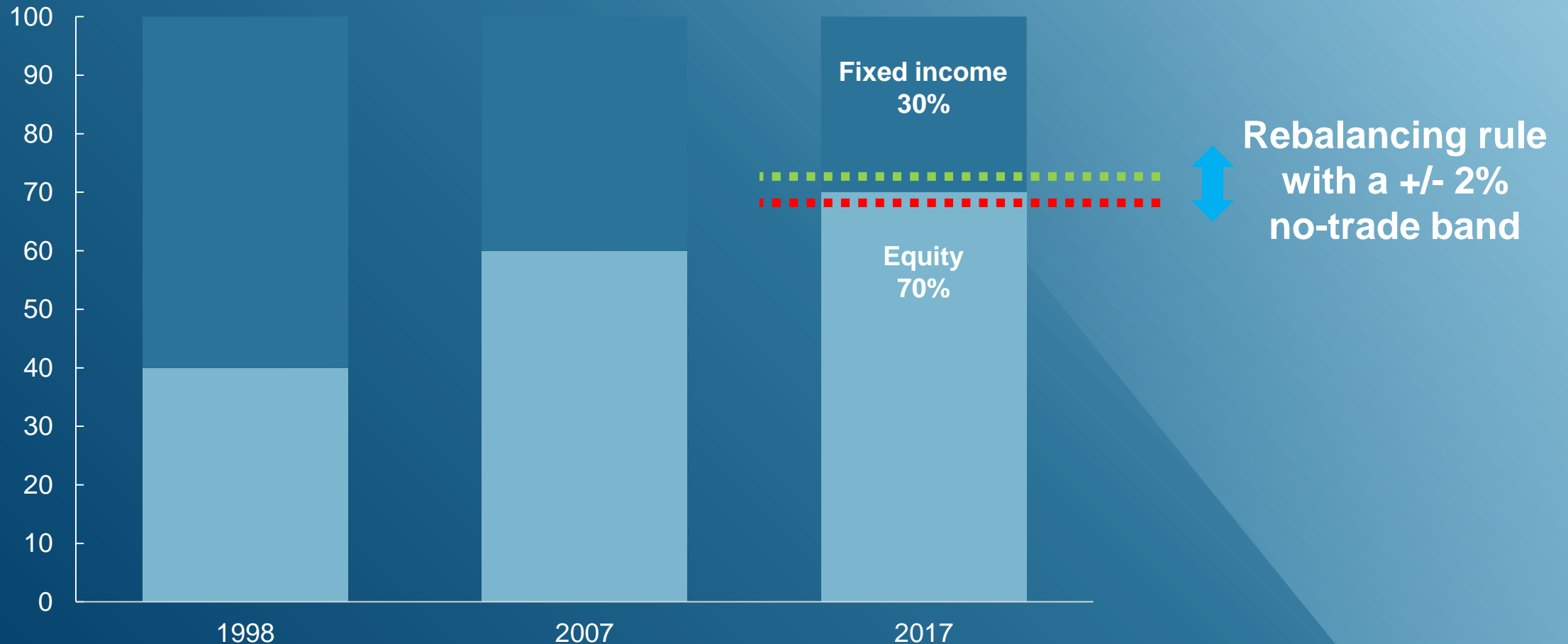
Fund size and government spending

As at 31.12.2019. Percent (left axis) and billions of kroner (right axis)



Strategic equity share of 70% since 2017

A mechanical rebalancing rule



Note: for illustration only.



Role of fixed income in the Fund

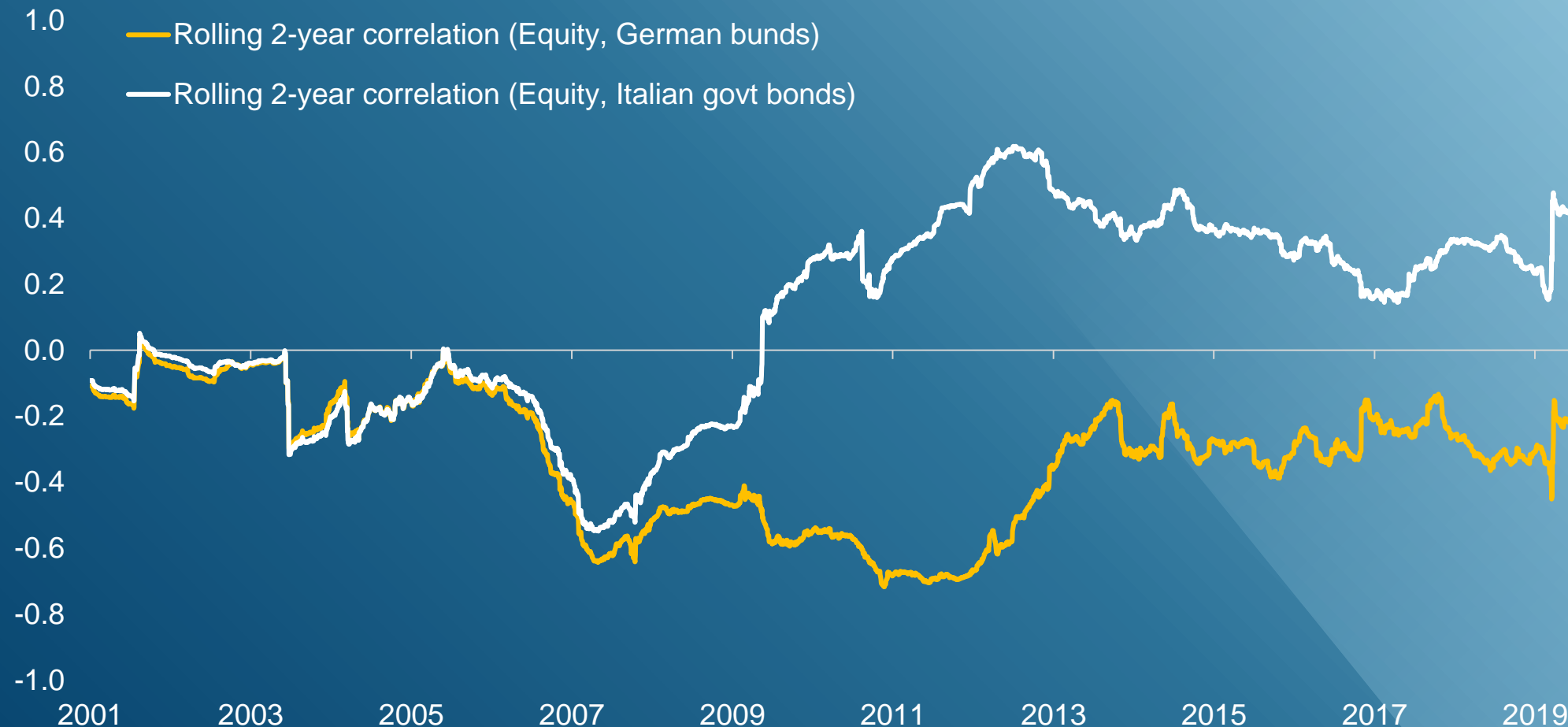
Reduce volatility

Provide liquidity

Earn risk premia

Role of government bonds in the portfolio

Equity-bond correlation

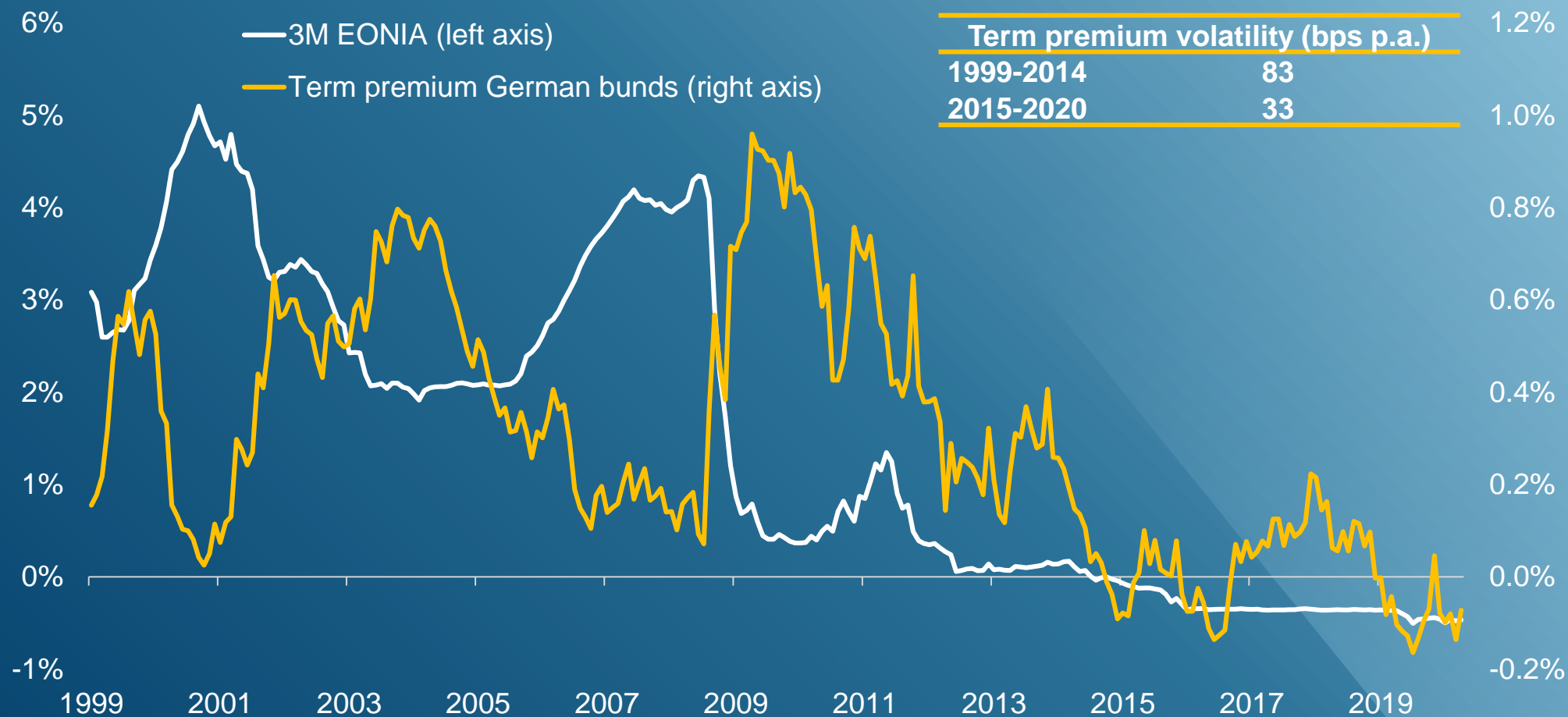


Notes: equity returns are represented by the MSCI EMU index, German bunds are represented by the Bloomberg Barclays Germany Government All Bonds Total Return index, Italian government bonds are represented by the Bloomberg Barclays Italy Government All Bonds Total Return index. Daily data, sample period is 1 January 2000 through 9 June 2020.



Hedging properties at the ELB

Lower volatility of term premium impairs hedging properties?



Notes: monthly data, sample period is January 1999 through May 2020. Internal estimates of term premium.



Role of government bonds in the portfolio

Equity-bond correlation during the COVID-19 crisis

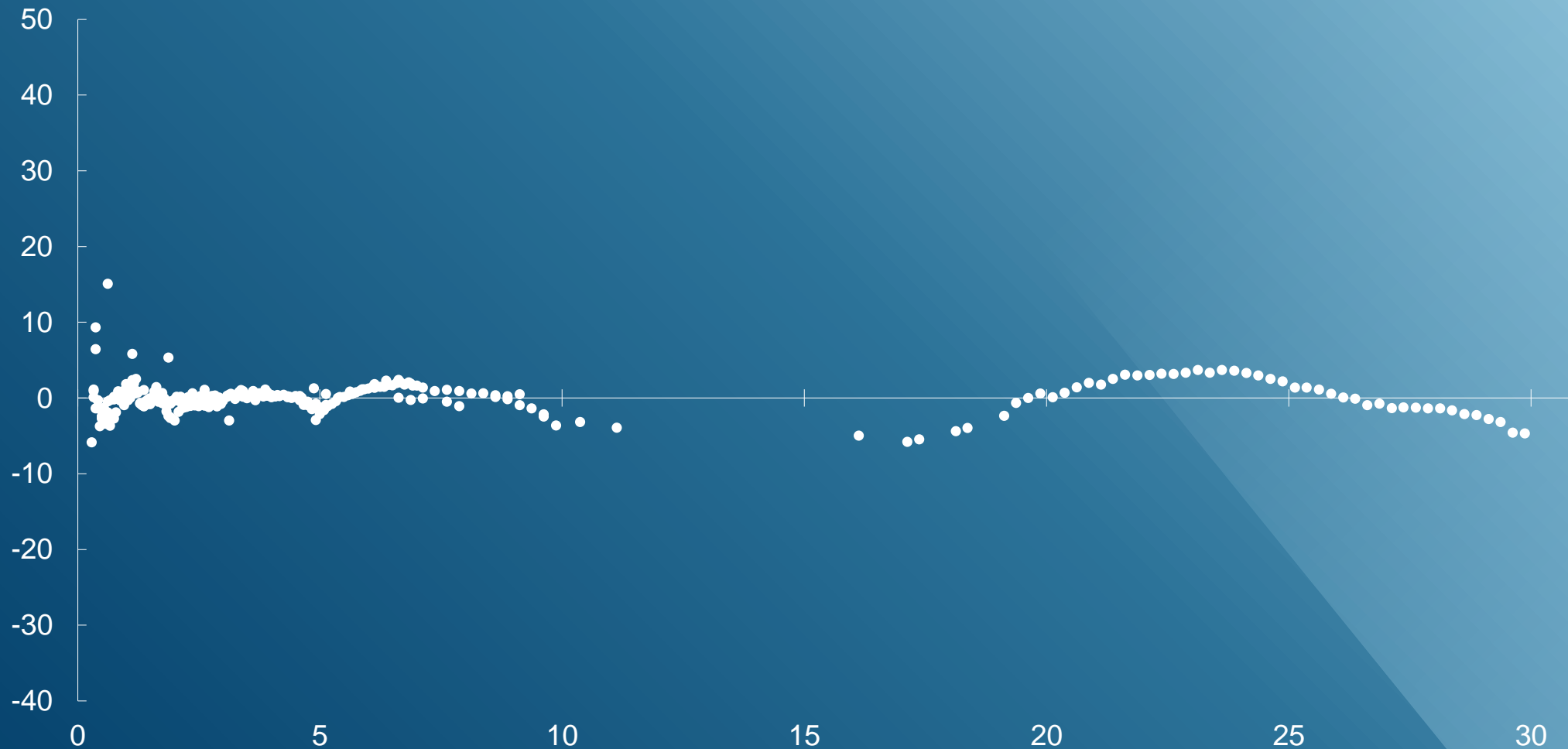


Notes: equity returns are represented by the MSCI EMU index, German bunds are represented by the Bloomberg Barclays Germany Government All Bonds Total Return index, Italian government bonds are represented by the Bloomberg Barclays Italy Government All Bonds Total Return index. Daily data, sample period is 1 October 2018 through 9 June 2020.



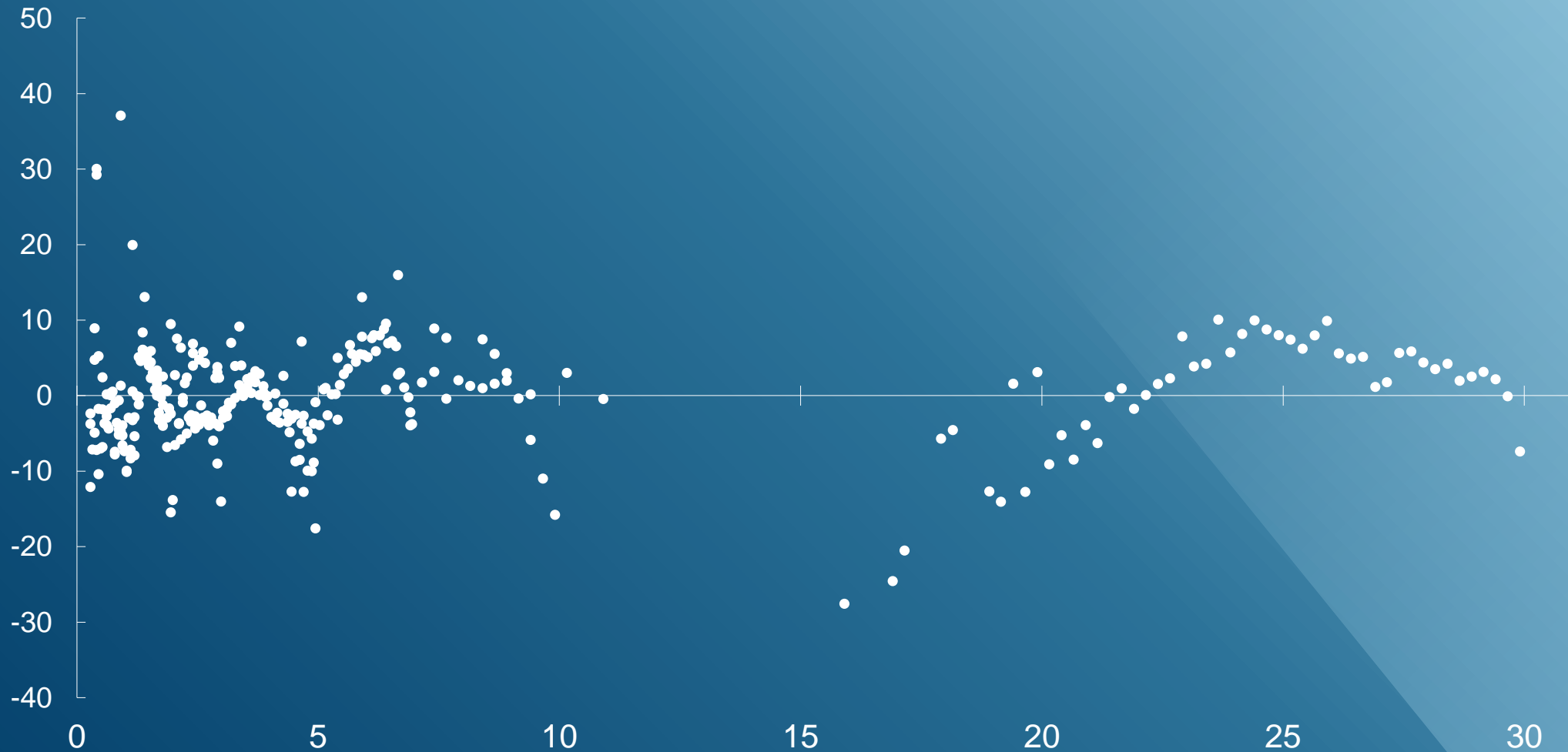
US Treasury yields vs model

Bps, actual vs fair value. X-axis: ytm. End-2019



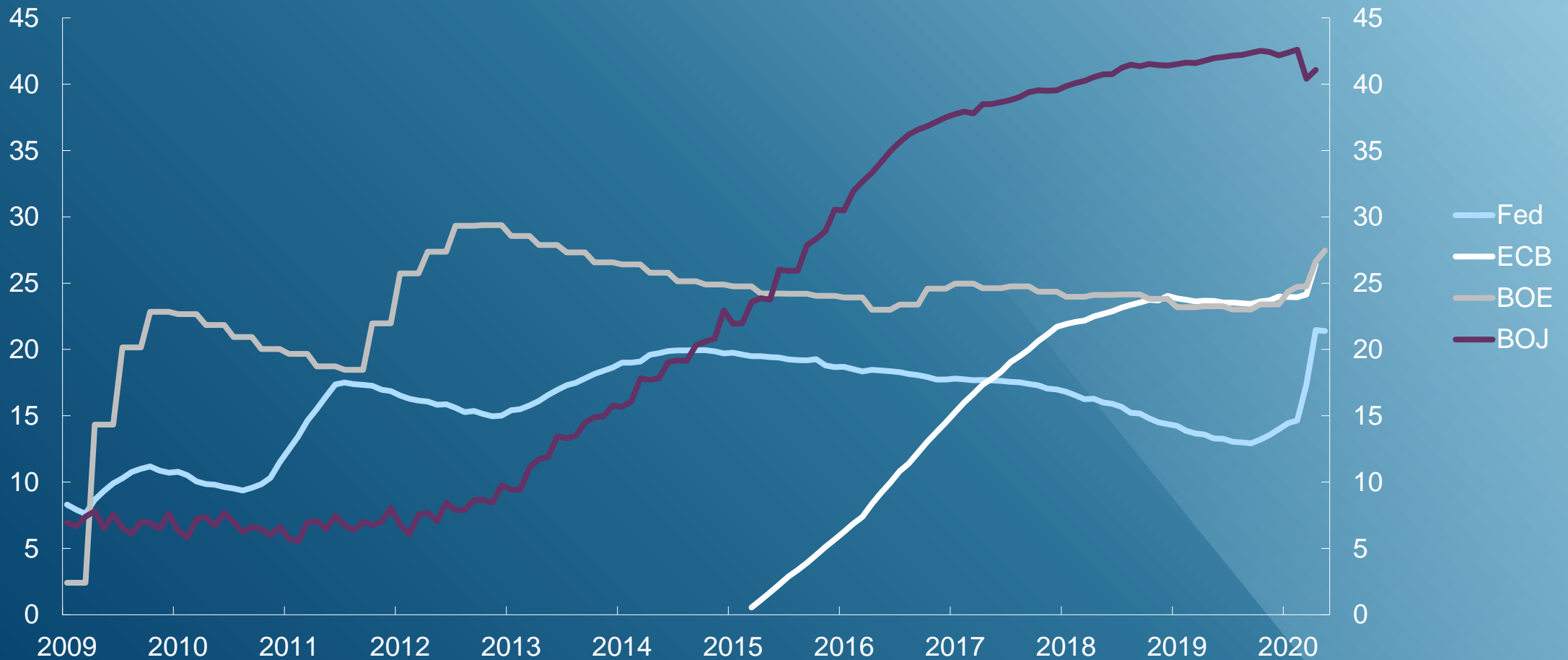
US Treasury yields vs model

Bps, actual vs fair value. X-axis: ytm. 19 March 2020



Central bank government bond holdings

Percent of outstanding government debt securities



Source: Deutsche Bank.



Harvest risk premiums in bond markets

Indexed cumulative returns

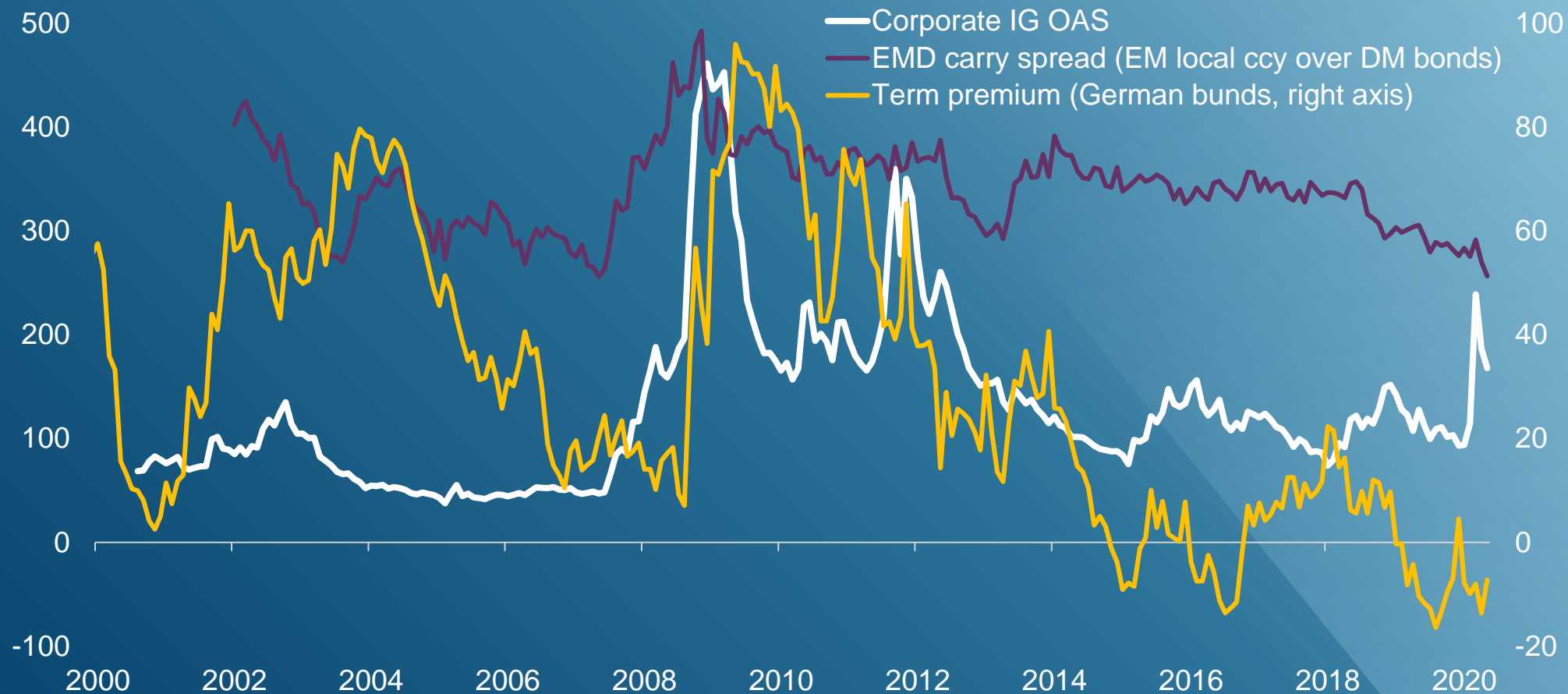


Source: Carry (return spread b/w EM and DM segments of JP Morgan GABI GOVERNMENT TOTAL RETURN USD), Term premium (return spread b/w all-maturity and 1-3yr segments of Bloomberg Barclays Euro-Aggregate Treasury), Credit premium (duration-matched excess return on Bloomberg Barclays Euro-Aggregate Corporate)



Harvest risk premiums in bond markets

Spreads in basis points

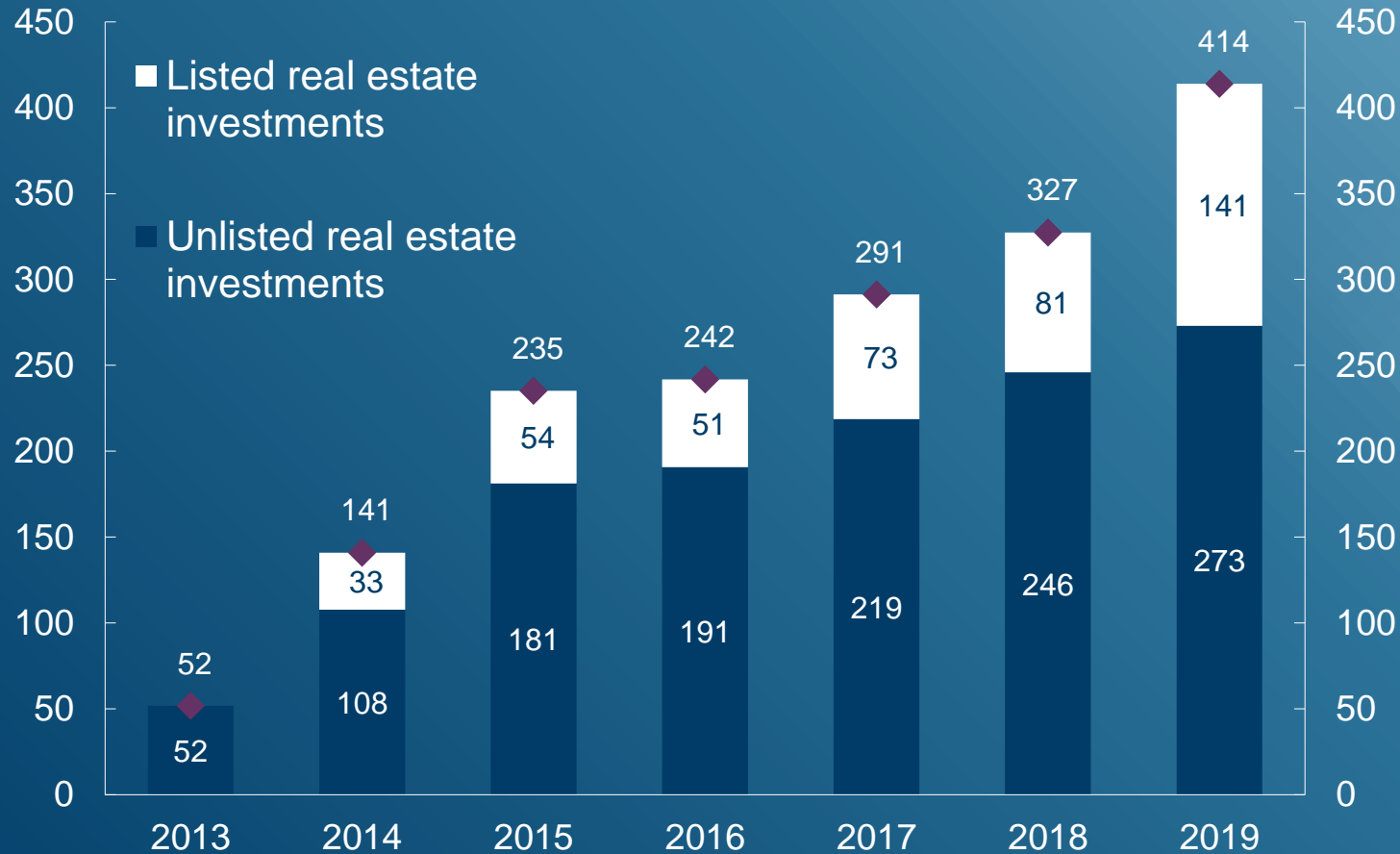


Source: Corporate IG OAS (duration-matched OAS on Bloomberg Barclays Euro-Aggregate Corporate), EMD carry (yield spread b/w EM and DM segments of JP Morgan GABI), Term premium German bunds (internal NBIM calculations)



Diversifying into real assets

Away from FI (and EQ)



Real estate = 5 %
Renewable infrastructure = 1 %