

Embrace the Pause

with three strategies using iShares bond ETFs

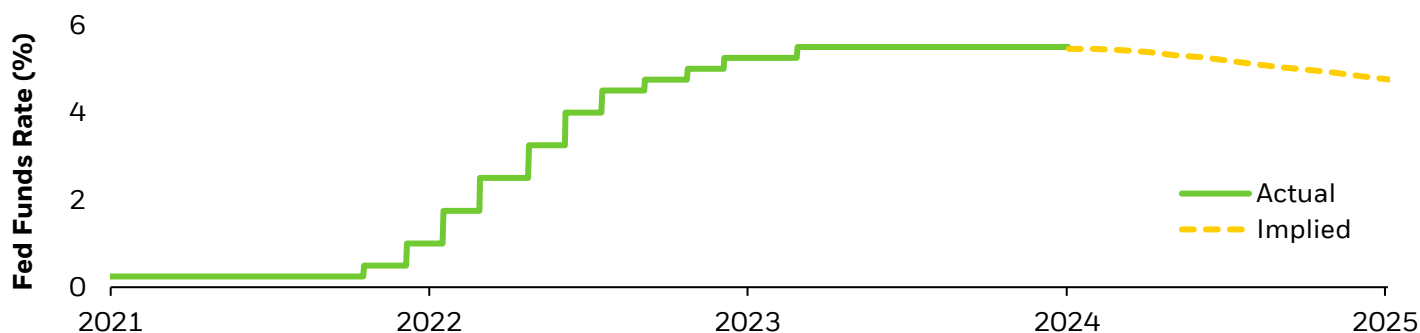
iShares®

by BlackRock

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In last month's newsletter, we explored various exposures that investors can turn to depending on whether the Fed cuts or hikes rates. This month, we consider a scenario – since market pricing has moderated from seven, back in the heady days of January, to under two cuts by year end – what if the Fed simply keeps rates unchanged for longer?

Figure 1: The Fed Rate has been unchanged since its last hike in July 2023



Source: BlackRock, Bloomberg, Federal Reserve, as of 31 May 2024. Reference to FDTR index. Forward path of Fed Funds Rate implied by Fed Funds futures. There is no guarantee that any forecasts made will come to pass. Source for estimated number of cuts in 2024: Bloomberg, as of 31 May 2024, based on World Interest Rate Probability - estimated number of hikes/cuts.

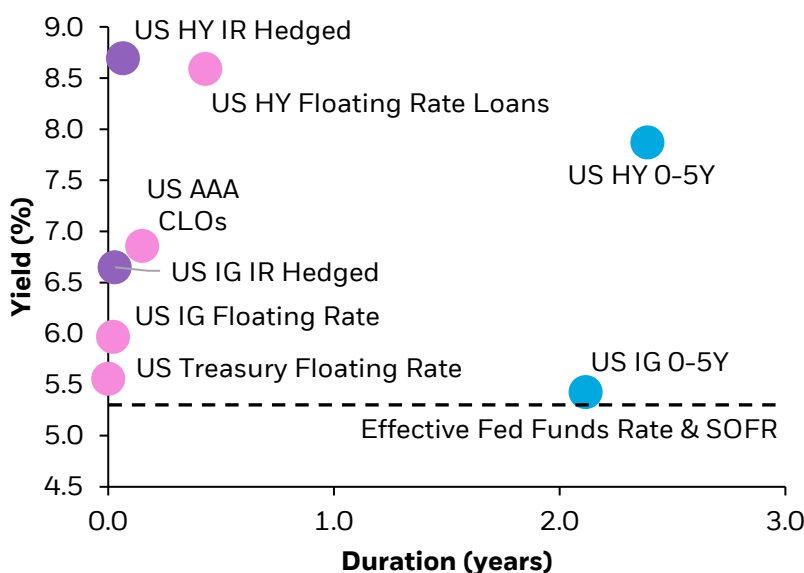
Where to hit pause?

In short, at the short end.

While fixed income yields across the board remain near decades-high levels, front-end bonds in most fixed income sectors continue to yield more than their longer maturities counterparts. The yield curve has been continuously inverted for the longest time ever since inverting in July 2022, exceeding a previous record: the 624-day inversion in 1978.

With the market continuing to debate the Fed's next move, investors can embrace the policy pause as yields stay attractive across the quality spectrum. Those especially wary of taking on too much duration risk can consider **three types of strategies that extend their time in the sun under this pause scenario.**

Figure 2: Elevated base rates mean floating rate and interest rate hedged strategies currently see some of the highest yield levels within the short-end



Source: BlackRock, Bloomberg, as of 31 May 2024. Reference to BTFLTRUU, BFU5TRUU, JCL0AAAT, SPBDALB, USIRHCRP, USIRHHYC, IBXXSIG1, IBXXSHY1 indices.





Three types of strategies to consider for this pause scenario:

Floating Rate Strategies

Floating rate strategies have coupon payments that periodically reset based on a short-term reference interest rate and a fixed spread component that is dependent on demand for the security and the market's perception of the issuer's creditworthiness at issuance. Investors can choose across Treasury floaters, corporate floaters, CLOs, and bank loans, depending on their risk and credit quality preference.

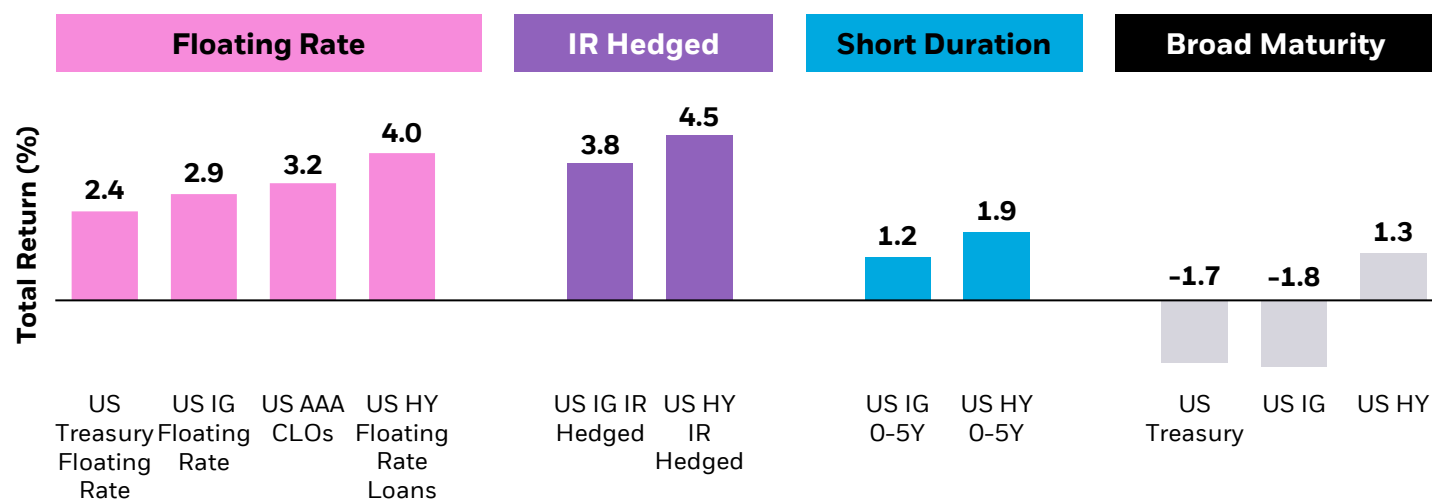
Interest Rate Hedged Strategies

Interest rate hedged (IR hedged) strategies have outperformed since 2022 against rapid rate hikes. Outperformance has continued year-to-date amidst the uncertain rate backdrop, as IR hedged strategies utilize futures and/or swaps designed to receive and benefit from increases in base financing rates.

Short Duration Strategies

Short duration strategies provide a way for investors looking to step out of pure cash without stepping too far, ride out the year while harvesting income that is currently higher than their long-duration counterparts.

Figure 3: YTD returns – floating rate, interest rate hedged and other short duration strategies against longer duration counterparts



Source: BlackRock, as of 31 May 2024. Reference to BTFLTRUU, BFU5TRUU, JCLOAAAT, SPBDALB, USIRHCRP, USIRHHYC, IBXXSIG1, IBXXSHY1, IDCOTC, IBOXIG, IBOXHY indices.

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