

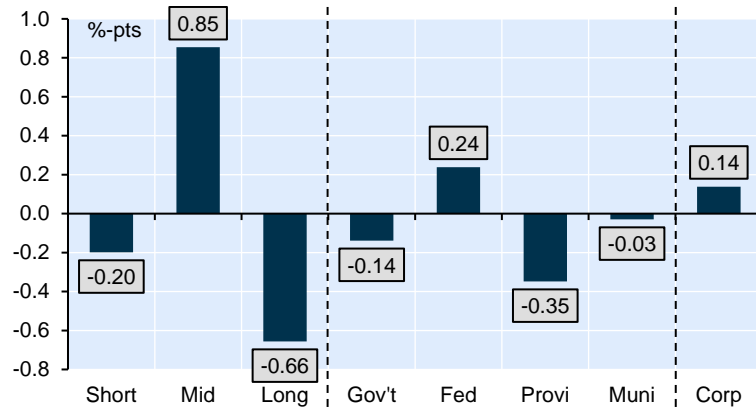
Market View – Freshening up Index sims with eye towards Dec 1st/2nd

By Warren Lovely

We've been talking about December 1st/2nd for more than a month now. Forgive us, but it's a big deal. We penned a detailed note on October 14th ([link](#)), following up on October 27th with FTSE Canada Universe Bond Index simulations ([link](#)). As we edge closer to the big day(s), here are fresh Index sims. If anything, the looming boost to duration is even larger than previously estimated. Most notably, duration of the Long Federal category looks to surge by more than a full year, as a CAN 12/2030 bond (the first 10Y with a Dec dating) rolls into the Mid bucket. Loads of cash + duration extension have favoured Canada outperformance vs. U.S. Treasuries in the past. But we're mindful of near-term risks: directional underperformance should the underlying market rally on greater virus uneasiness; a potential tweak to the Fed's QE purchase regime (favouring longer tenors) as early as the December meeting. After the big cash dump, we could be looking at Canada underperformance into year-end.

Chart 1: Shifting Index weights

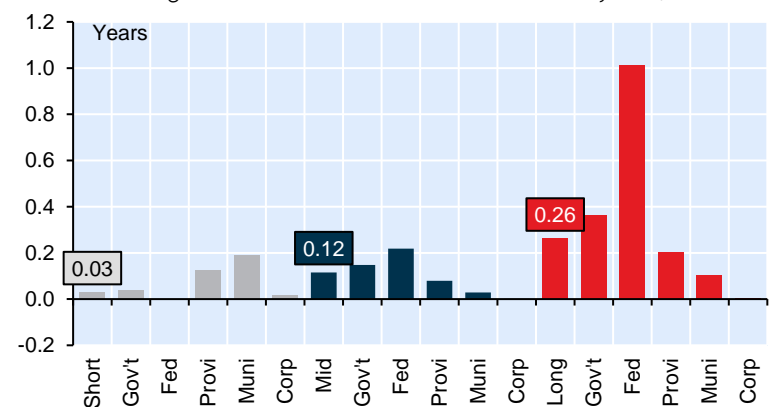
Estimated change in FTSE Canada Universe weights: 30-Nov to 2-Dec



Source: NBF, FTSE Russell | Note: PC Bond simulations based on closing prices as at 23-Oct-2020, assuming no shift in yield curve; 2-day cumulative impact for 1-Dec & 2-Dec

Chart 2: Long index to extend most, esp. Federal

Estimated change in FTSE Canada Universe mod duration by term/sector



Source: Source: NBF, FTSE Russell | Note: PC Bond simulations based on closing prices as at 18-Nov, assuming no shift in yield curve; 2-day cumulative impact for 1-Dec & 2-Dec

Table: Breaking down estimated change in Index weights & duration

FTSE Canada Universe Bond Index simulation analysis | Simulation timeframe: 30-Nov-2020 to 2-Dec-2020 (i.e., two-day cumulative impact)

	Index weight simulation (%)		Modified duration simulation		Duration change analysis: 30-Nov to 2-Dec			
	30-Nov	2-Dec	30-Nov	2-Dec	Coupon effect	Roll effect	Total change	
Short (-5 years)	Short Government	28.85	28.65	2.763	2.799	0.003	0.032	0.036
	Short Federal	19.59	19.78	2.703	2.701	-0.002	0.000	-0.002
	Short Provincial	8.74	8.40	2.886	3.009	0.016	0.107	0.123
	Short Municipal	0.51	0.47	2.966	3.157	0.004	0.187	0.191
	Short Corporate	12.59	12.59	2.797	2.812	-0.004	0.019	0.015
	Short Financial	8.13	8.10	2.743	2.764	-0.004	0.025	0.021
	Short (Overall)	41.44	41.24	2.773	2.803	0.001	0.028	0.029
Mid (6-10 years)	Mid Government	18.20	19.00	6.892	7.039	0.031	0.116	0.148
	Mid Federal	8.28	8.98	7.016	7.235	0.026	0.193	0.219
	Mid Provincial	9.30	9.38	6.788	6.868	0.038	0.042	0.080
	Mid Municipal	0.62	0.64	6.779	6.807	0.009	0.020	0.029
	Mid Corporate	5.94	6.00	6.337	6.337	0.000	0.000	0.000
	Mid Financial	1.24	1.25	6.212	6.210	-0.001	0.000	-0.001
	Mid (Overall)	24.14	24.99	6.755	6.871	0.023	0.092	0.116
Long (10+ years)	Long Government	26.62	25.88	16.408	16.770	0.162	0.201	0.362
	Long Federal	6.31	5.67	16.903	17.913	0.172	0.838	1.010
	Long Provincial	19.31	19.22	16.322	16.523	0.163	0.038	0.201
	Long Municipal	0.99	0.99	14.935	15.038	0.073	0.030	0.103
	Long Corporate	7.81	7.89	13.819	13.823	0.005	0.000	0.005
	Long Financial	0.49	0.49	12.105	12.099	-0.005	0.000	-0.005
	Long (Overall)	34.42	33.77	15.821	16.082	0.121	0.140	0.261
Universe	100.00	100.00	8.226	8.303	0.034	0.044	0.078	

Source: NBF, FTSE Russell | Note: PC Bond simulations based on closing prices as at 18-Nov, assuming no shift in yield curve; 2-day cumulative impact for 1-Dec & 2-Dec; actual changes in Index weights and duration will be impacted by absolute and relative changes in constituents, market holdings, prices/yields, etc.

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