

## Bond index cash: Best mark your calendar

By Warren Lovely

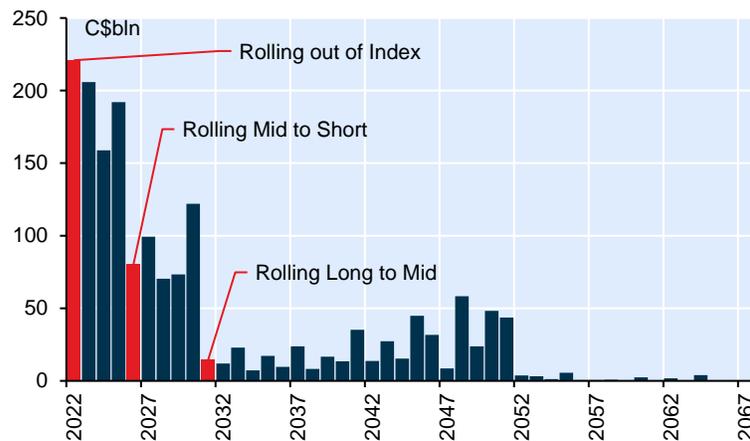
Having flipped the calendar over to 2021, investors are busy penciling in any number of key dates for the year ahead: geopolitical events (like a none-too-trivial hand over of power in Washington or the COP26 climate summit later this year); economic releases; monetary policy decisions; government budgets/fiscal updates; corporate earnings reports; etc. Sadly, we're also having to block time on our calendars for fresh virus-related restrictions. For many, the most important day of the year will be when they get their COVID-19 vaccination. But if you have even passing interest in Canada's bond market, there are a handful of other days worth highlighting. We're talking about 8-14 individual days in the coming year that will see truly outsized cash flows, triggering disproportionate adjustments to Canada's fixed income indices.

At the end of 2020, there were more than 1,500 securities in the FTSE Canada Universe Bond Index with total outstandings in the neighbourhood of C\$1.75 trillion. In calendar 2021, almost 140 bonds (with a combined index weight of ~11.5%) are set to roll out. Another 100 or so (>5% of the current weighting) will roll over from Mid to Short or Long to Mid (Chart 1). These roll outs or roll overs, combined with big-time coupon payments, will mean sizeable extensions and related investor re-positioning at key points of the year. It's still a bit early to be running the detailed simulations for these key days. But rest assured, as each extraordinary day draws closer, we'll have detailed sims ready and waiting.

As it stands, 2021 will see some C\$51 billion of Universe index cash distributed (Chart 2). As usual, a lot of this cash will be skewed to June and December, then March and September (Chart 3). More specifically, the individual days that really warrant your attention are highlighted in Charts 4 and 5. For example, the tidal wave of cash set to arrive on June 1<sup>st</sup> and December 1<sup>st</sup> represents a 10 standard deviation event (relative to average daily cash). June 2<sup>nd</sup> and December 2<sup>nd</sup> aren't that far behind. Associated market adjustments tend to create some interesting opportunities for investors. You know that old saying: cleanliness is next to godliness. Well for bond investors, it might be more appropriate to say awareness is next to profitableness, all else being equal. So take a few minutes to update your calendar and, a humble suggestion, consider getting out in front of Canada's particularly large cash dumps. It rarely hurts and often works.

### Chart 1: Roll, roll, roll the bonds...

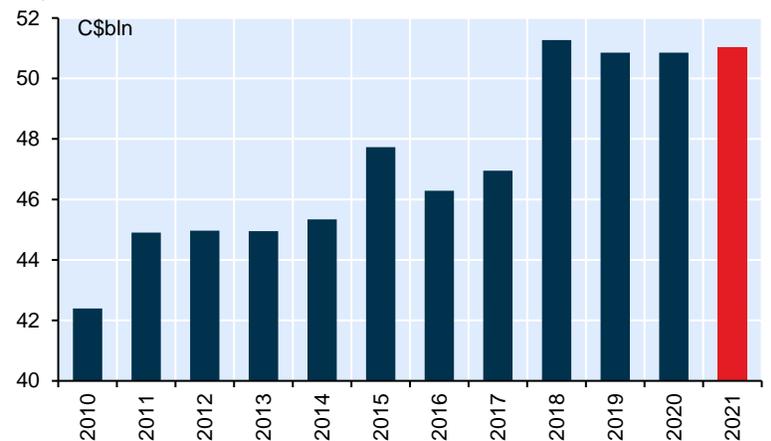
Maturity profile of FTSE Canada Universe Bond Index bonds



Source: NBF, FTSE Russell | Note: Red bars denote roll out/roll over during 2021

### Chart 2: Historical perspective on 2021 index cash

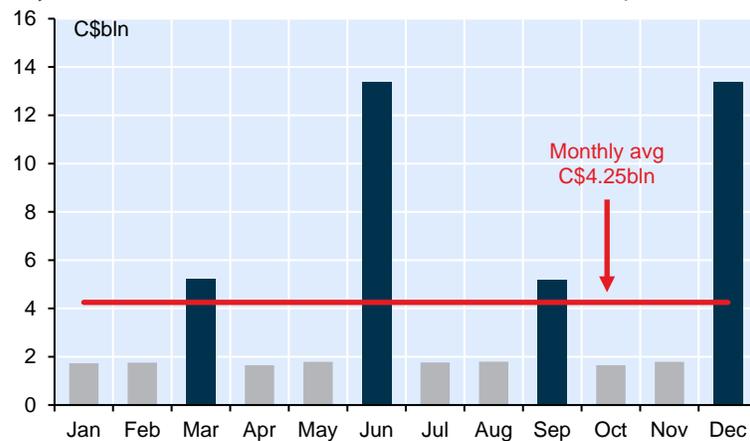
Projected FTSE Canada Universe Bond Index cash flows: 2021 vs. trend



Source: NBF, FTSE Russell | Note: Projections generated at end of preceding year

### Chart 3: Typical seasonal concentration of index cash

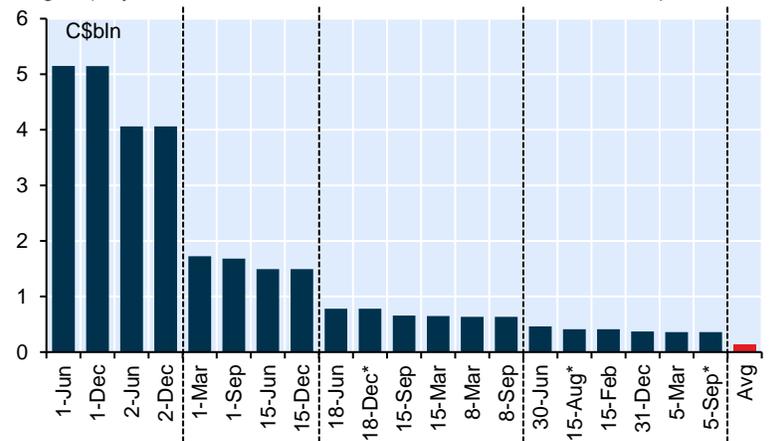
Projected FTSE Canada Universe Bond Index cash flows: 2021 by month



Source: NBF, FTSE Russell

### Chart 4: The 4, 8, 14 or 20 key dates to really focus on

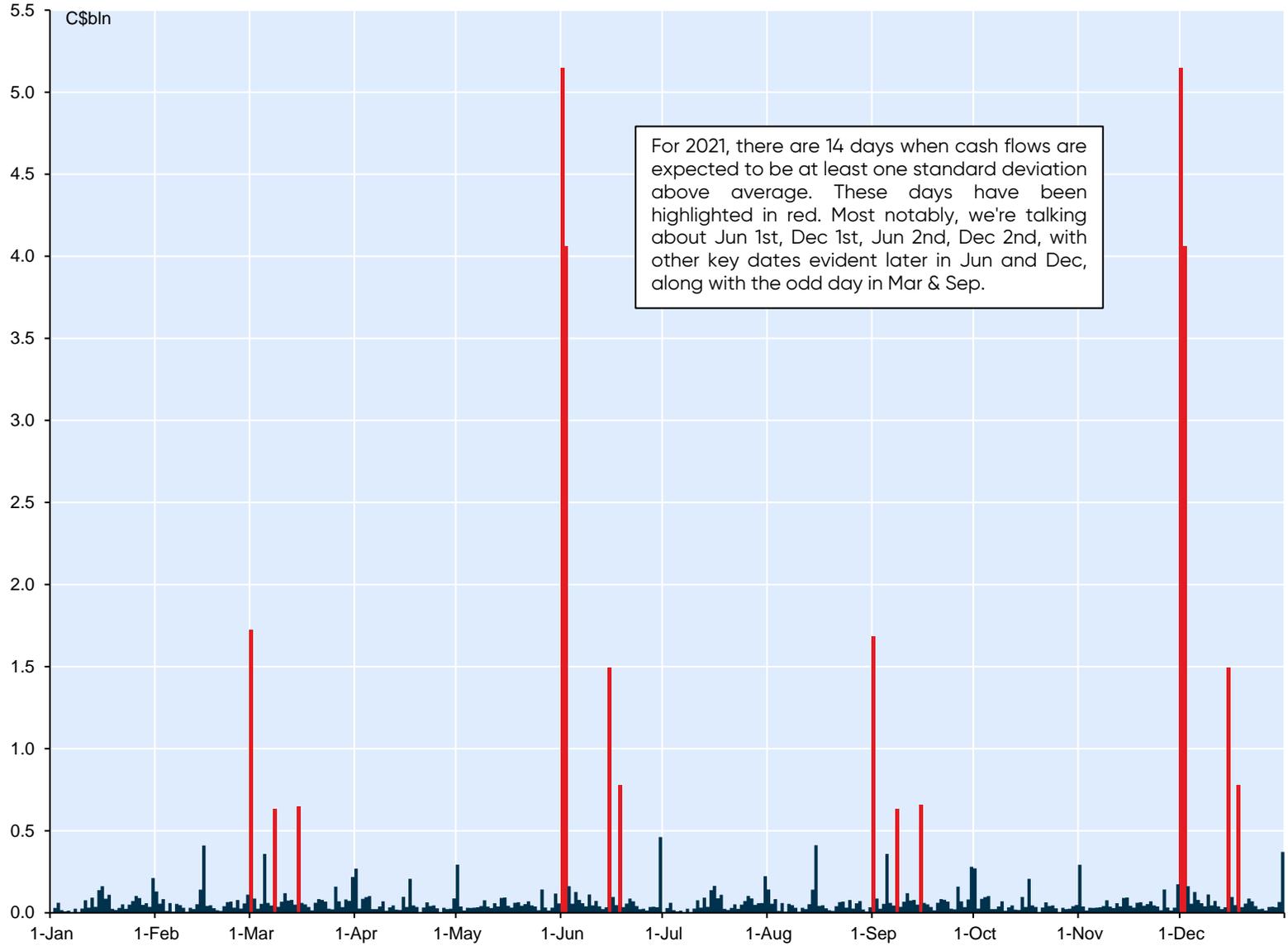
Largest projected FTSE Canada Universe Bond Index cash flow days: 2021



Source: NBF, FTSE Russell | Note: Asterisk (\*) denotes a day that falls on weekend in 2021

#### Chart 5: A more detailed/complete look at Canada's bond index cash flows for calendar 2021

Projected daily FTSE Canada Universe Bond Index cash flows: 2021



Source: NBF, FTSE Russell

Note: This report utilizes FTSE Russell analytics. As it relates to projected index roll outs, roll overs and cash flows for 2021, we based on our analysis on index constituents and outstandings as of late December 2020. Actual index adjustments and cash flows will be impacted by upcoming issuance and resulting changes in index composition, among other things. As noted on page 1, we will prepare detailed index simulations ahead of the major cash flow/duration extension dates, the first set of sims to be expected well in advance of March 1<sup>st</sup>.



## Economics and Strategy

### Montreal Office 514-879-2529

**Stéfane Marion**

*Chief Economist and Strategist*  
stefane.marion@nbc.ca

**Paul-André Pinsonnault**

*Senior Economist*  
paulandre.pinsonnault@nbc.ca

**Daren King**

*Economist*  
daren.king@nbc.ca

**Matthieu Arseneau**

*Deputy Chief Economist*  
matthieu.arseneau@nbc.ca

**Angelo Katsoras**

*Geopolitical Analyst*  
angelo.katsoras@nbc.ca

**Jocelyn Paquet**

*Economist*  
jocelyn.paquet@nbc.ca

**Kyle Dahms**

*Economist*  
kyle.dahms@nbc.ca

**Camille Baillargeon**

*Intern Economist*  
camille.baillargeon@nbc.ca

### Toronto Office 416-869-8598

**Warren Lovely**

*Chief Rates and Public Sector Strategist*  
warren.lovely@nbc.ca

**Taylor Schleich**

*Rates Strategist*  
taylor.schleich@nbc.ca

### General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of IIROC), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

### Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.



### UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 71 Fenchurch Street, London, EC3M 4HD.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

### U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

### HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

### Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.