

It's September 1st: Go long!?

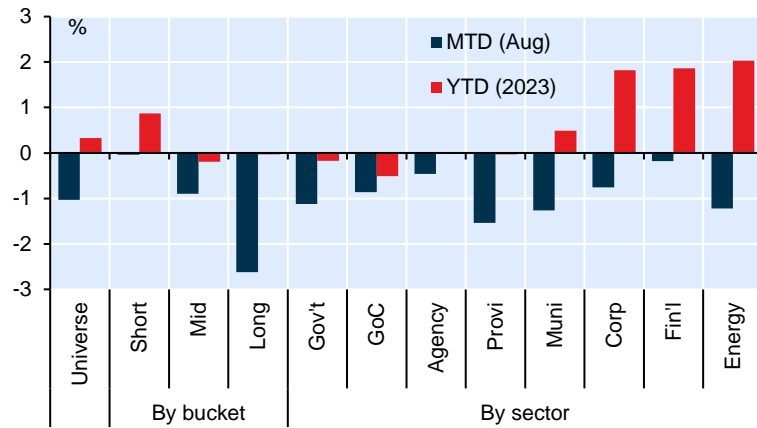
By Warren Lovely

Notwithstanding a more recent rally, a generalized re-pricing of rates has pressured bond market returns. The fallout has been most acute in the long end, where year-to-date total returns have been fully wiped out (based on closing values of the FTSE Canada Universe Bond Index as of August 28th). Economic and policy rate uncertainty can test conviction and we wouldn't necessarily advocate for an investment 'hail mary' at this juncture. Still, some chunky seasonal bond market cash and related index adjustments seemingly favour 'going long' (in rates and public sector credit) in/around month end, all else equal.

We explored elements of Canada's September 1st coupon/roll effect in a *Market View* note yesterday ([link](#)). Given the relative significance of the adjustments at hand and related investor interest, this *Addendum* supplements a few elements. Of note, we include a detailed breakdown of the simulated 1-day change in modified duration for key sectors (alongside anticipated changes in bucket weights). Position accordingly.

Chart 1: Sell-off in rates has left hickey on long index

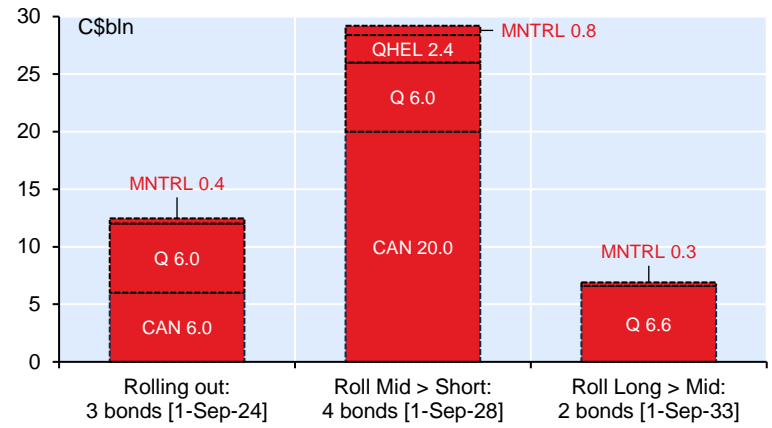
FTSE Canada Universe Bond Index total return: Month- & year-to-date



Source: NBF, FTSE Russell | Note: Total returns as at 28-Aug close

Chart 2: Counting bonds > 3+4+2=9 bonds rolling out/over

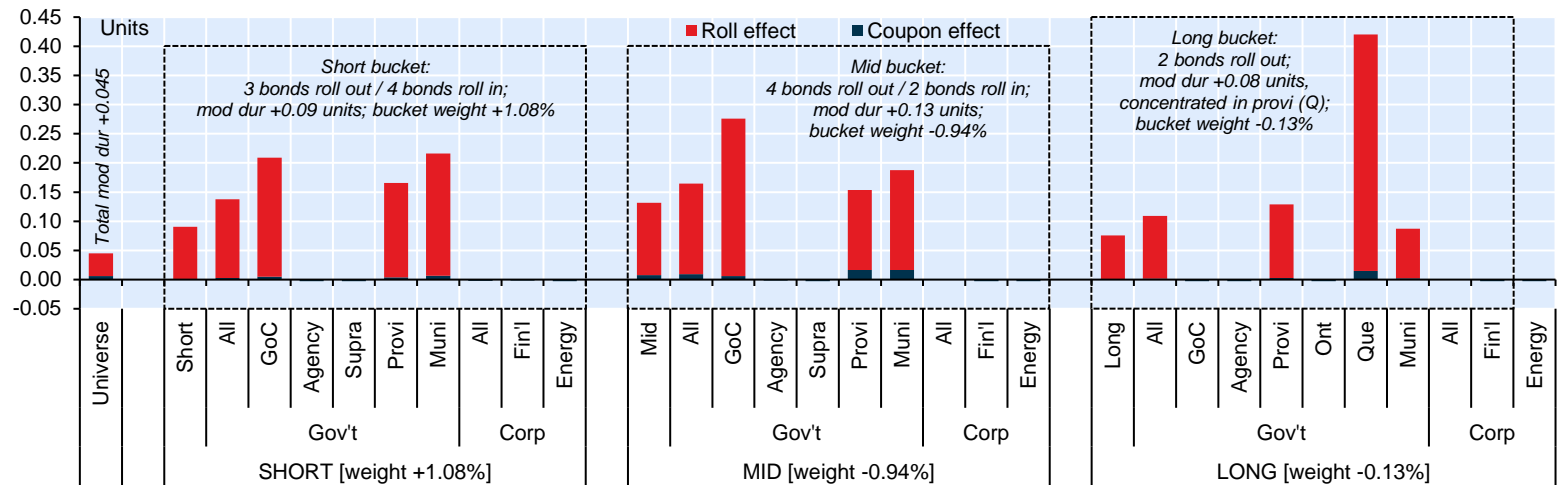
Bonds rolling out or rolling over in FTSE Canada Universe Bond Index: 1-Sep



Source: NBF, FTSE Russell | Note: Based on current holdings as at 28-Aug close

Chart 3: Duration of Canada's bond index set to extend, with September 1st an important maturity dating for feds/Quebec

Simulated 1-day change in modified duration of FTSE Canada Universe Bond Index: Thursday, August 31st to Friday, September 1st (all else equal)



Source: NBF, FTSE Russell | Note: Simulated 1-day change in modified duration & bucket weight; based on index constituents/closes as at 28-Aug; assumes no change in yield curve

Table: Roll, roll, roll your bonds

Composition of FTSE Canada Universe Bond Index, including focus securities rolling out or rolling over Friday, September 1st

Index characteristics: As at 28-Aug-23					Focus securities: Rolling out or rolling over on 1-Sep-23						
Bucket Name	Bonds #	Holdings C\$bln	Weight % of Uni	Average C\$m/ln	Bucket Name	Bonds #	Holdings C\$bln	Weight % of Uni	Average C\$m/ln	Comments	Issuers
Universe	1,681	2,105.8	100.0	1,253	Universe	9	48.6	2.5	N/A	All roll types	CAN, Q, QHEL, MNTRL
Short	653	863.7	42.8	1,323	Short	3	12.5	0.6	1.5	Out of index	CAN, Q, MNTRL
Mid	381	610.2	28.9	1,602	Mid	4	29.2	1.5	5.1	Mid > Sht	CAN, Q, QHEL, MNTRL
Long	647	631.9	28.4	977	Long	2	6.9	0.3	1.2	Long > Mid	Q, MNTRL

Source: NBF, FTSE Canada | Note: Based on index constituents/closes as at 28-Aug



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