



WELLINGTON
MANAGEMENT®

European Bond Market Outlook

ECB Bond Contact Group, 21 June 2016

Natasha Brook-Walters Managing Director, Fixed Income

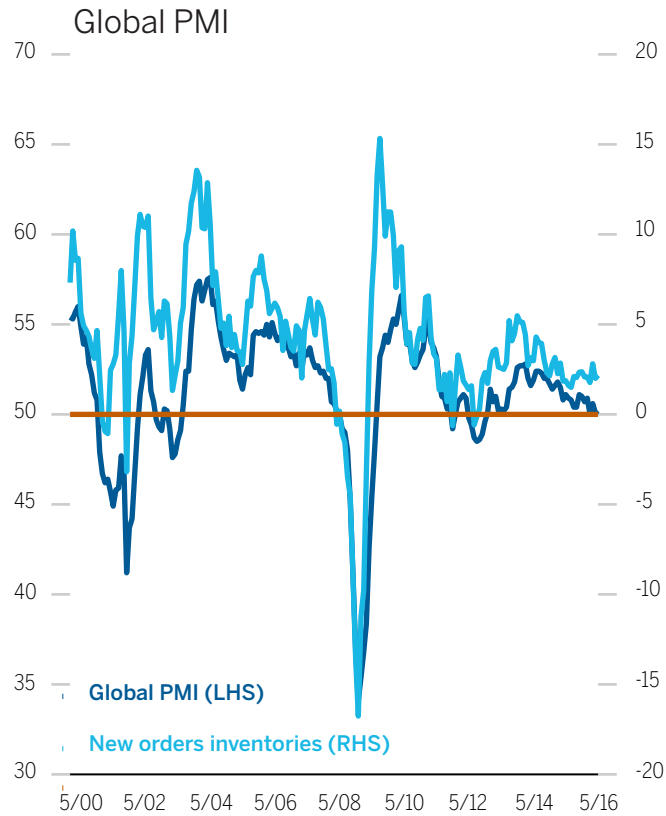
Any views expressed herein are those of the author(s), are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients. Certain data provided is that of a third party. While data is believed to be reliable, no assurance is being provided as to its accuracy or completeness.

Wellington Management International Ltd

Macroeconomic Framework

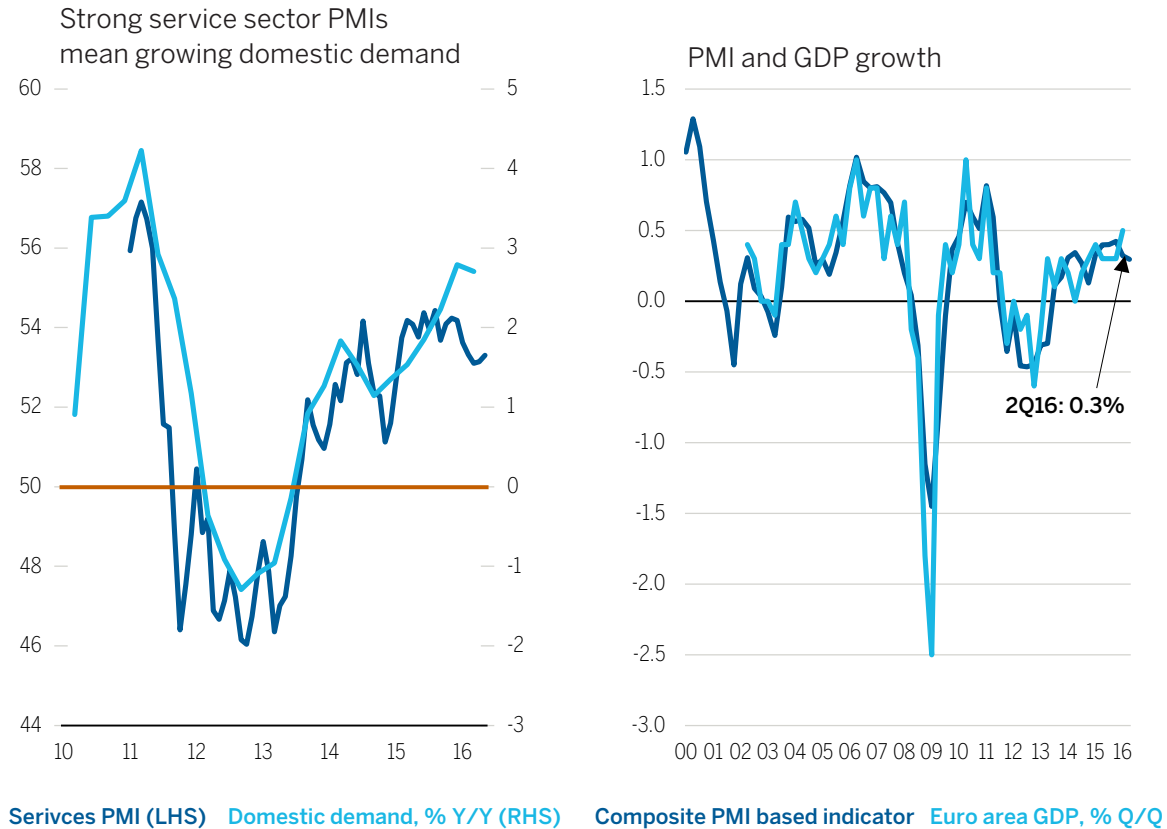
Global cycle sluggish...

...improvement in US and China, rotating from Japan and Europe



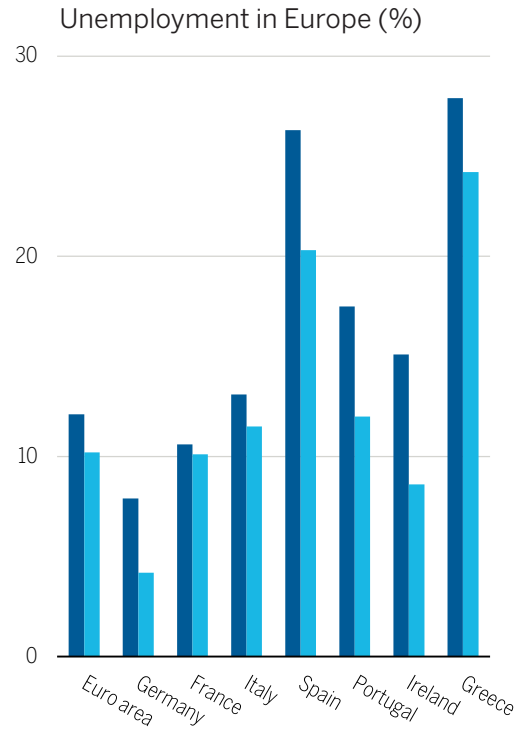
Macroeconomic Framework

Improving service sector PMIs mean growing domestic demand...
...sequential improvement is modest in composite PMI and GDP

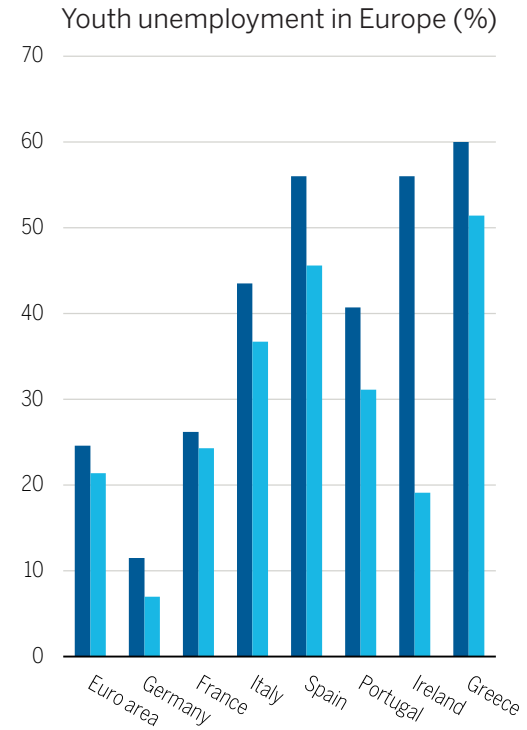


Macroeconomic Framework

European unemployment meaningfully below peak...
...whilst youth unemployment remains high



Peak UE (2008 – Mar 2016)

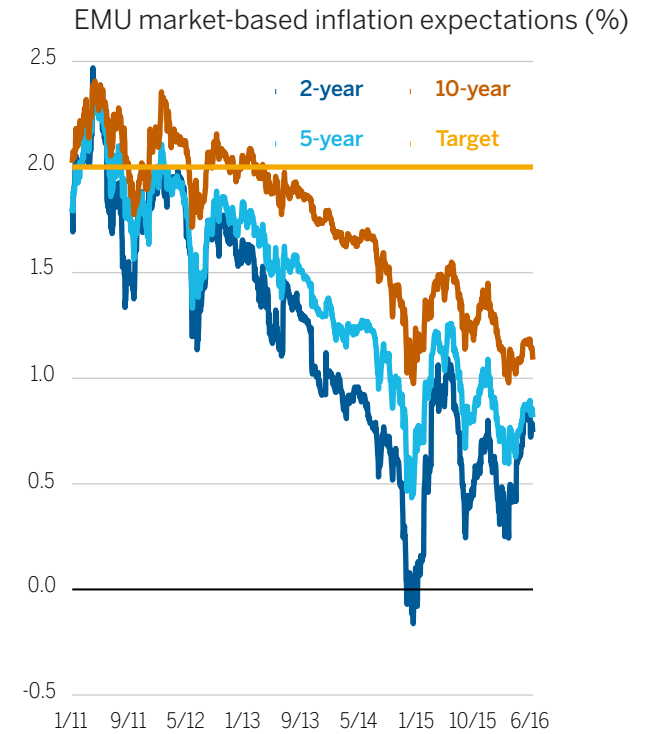
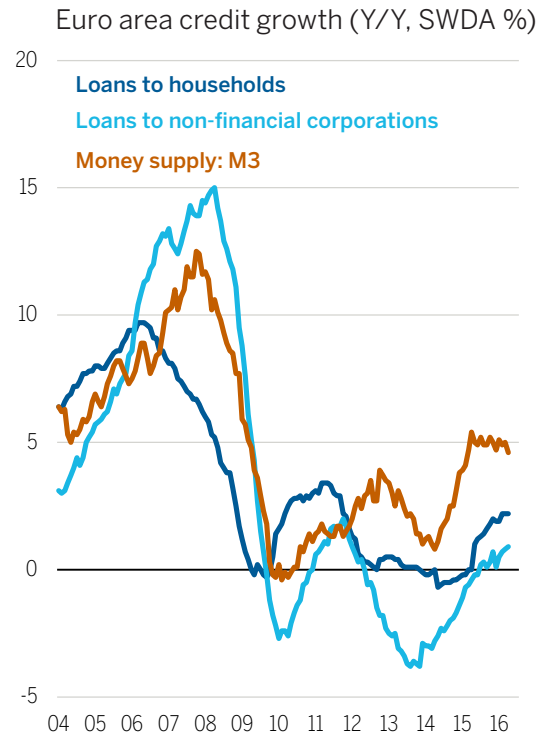


As of Mar 2016

Note: Youth unemployment defined as number of unemployed age 25 or younger. | Sources: Haver, Eurostat

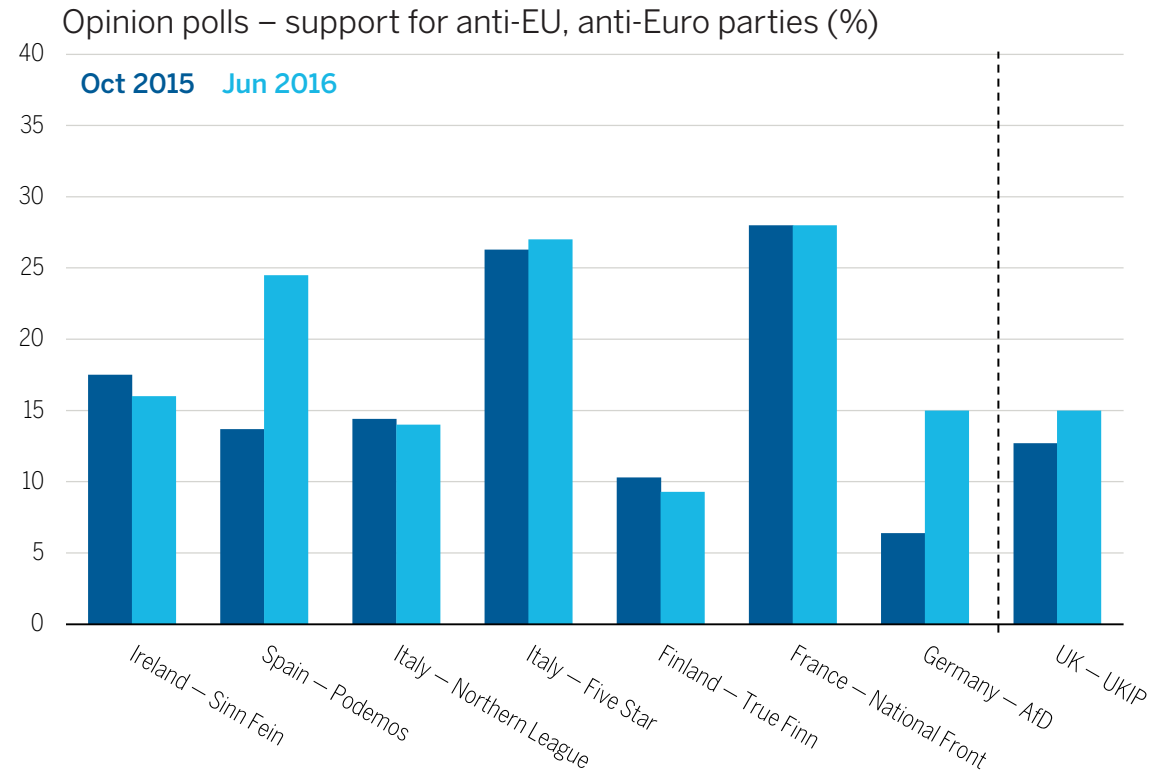
Macroeconomic framework

European credit growth is increasing...
... yet inflation expectations are still low



Macroeconomic framework

Populist political parties are gaining support across Europe...
...and remain a big risk

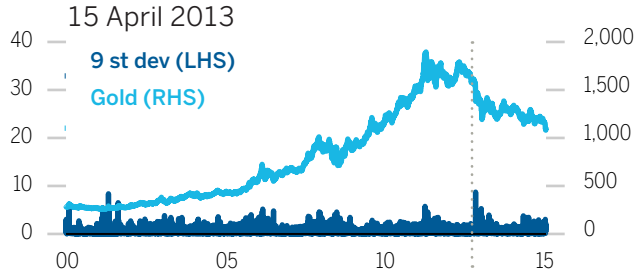


Note: No polling data available for National Front in June and for True Finn in August | Source: National polling agencies

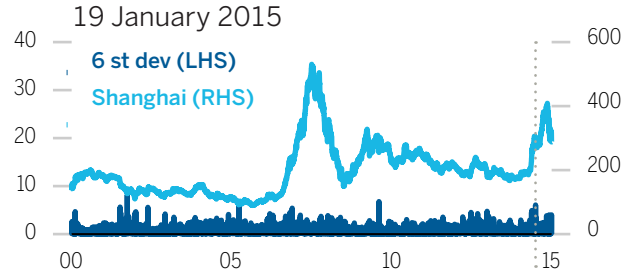
Macroeconomic Framework

Liquidity is not just an issue in corporate bonds markets

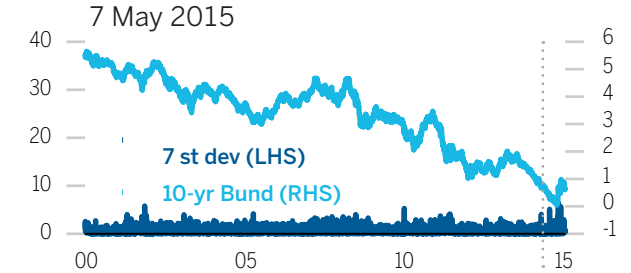
Daily absolute price moves expressed as multiple of 1-yr standard deviation



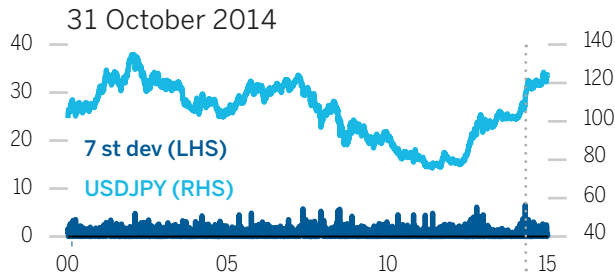
"Gold plunged the most in 33 years amid record-high trading as an unexpected slowdown in China's economic expansion sparked a commodity selloff from investors concerned that more cash will be needed to cover positions."¹



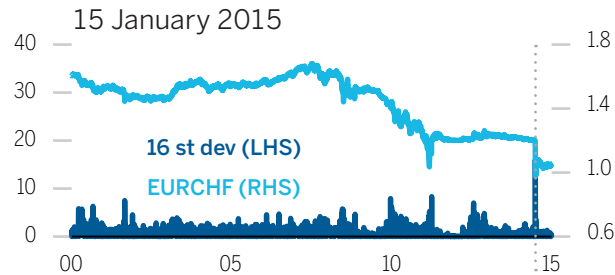
"Shanghai's stock market suffered its worst plunge in more than six years on Monday, after authorities cracked down on a risky lending practice used by the China's biggest securities brokerages."²



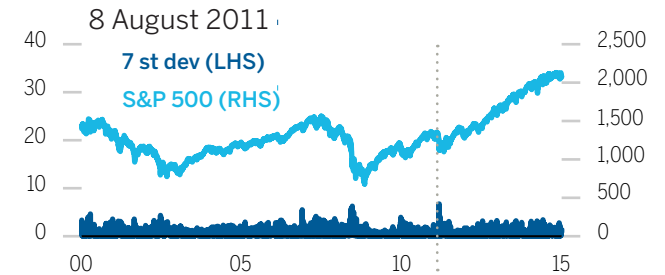
"Traders were unable to pinpoint a single factor driving the selloff. Some said catalysts included the poorly received French government-bond auction and Wednesday's comments Janet Yellen, chairwoman of the US Federal Reserve, about valuations in stock and credit markets."³



"The pair jumped after a surprise announcement by the BoJ to increase stimulus by raising its monetary base target to JPY 80 trillion annually."⁴



"The Swiss central bank has abandoned its exchange rate control and cut interest rates to -0.75 pc, sending the franc soaring against the single currency."⁵



"Black Monday 2011 refers to 8 August 8 2011, when US and global stock markets crashed following the Friday night credit rating downgrade by Standard and Poor's of the United States sovereign debt from AAA."⁶

Sources: Haver Analytics, ¹Bloomberg, ²The Guardian, ³The Wall Street Journal, ⁴FXStreet.com, ⁵The Telegraph, ⁶Wikipedia

Asset Purchase Programme

Evidence points to ECB frontloading in April 2016 and May 2016

ECB cumulative purchases reach €1 trillion

In both April 2016 and May 2016 the total purchases were above the €80 billion target

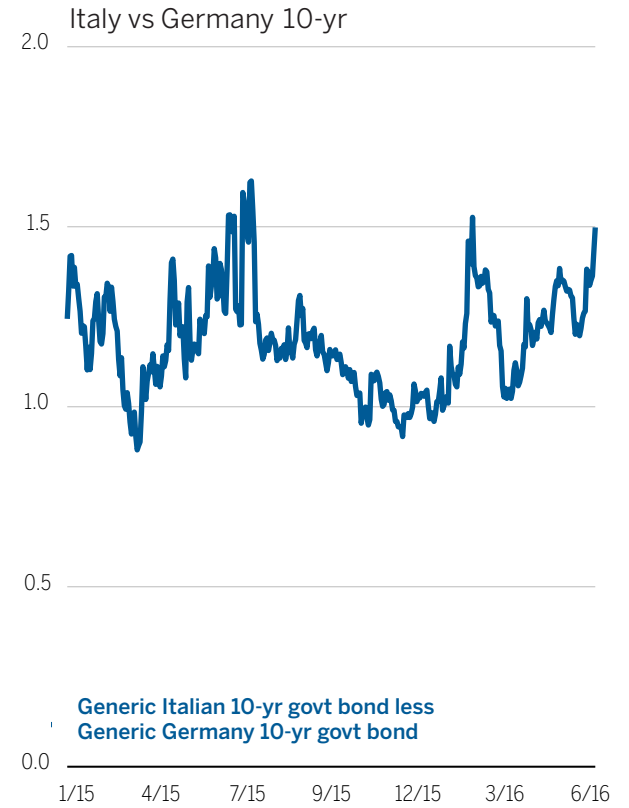
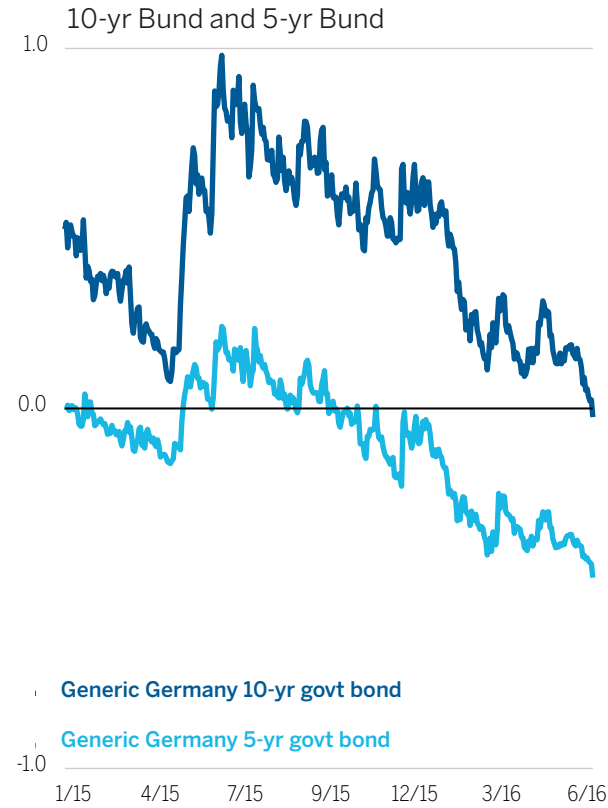
Between March 2015 and March 2016 the Public Sector Purchase Programme (PSPP) averaged 83% of asset purchases, during April 2016 and May 2016 this average increased to 93%

	PSPP			CBPP3	ABSSPP	Total
	Government bonds and agencies	Supranationals	Total			
Cumulative ¹	717.1	95.4	812.5	177.8	19.1	1,009.4
Average (March 2015 to March 2016)	44.3	6.1	50.4	8.9	1.2	60.5
Average (%)	73.2	10.1	83.3	14.7	2.0	–
April 2016	69.8	8.7	78.5	6.6	0.0	85.2
May 2016	72.0	7.7	79.7	5.6	0.0	85.2
Average (April 2016 to May 2016)	70.9	8.2	79.1	6.1	0.0	85.2
Average (%)	83.2	9.6	92.8	7.2	0.0	–

¹At amortized cost | Monthly size of ECB purchases and cumulative amounts spent last day of the week shown on a settlement basis € bil | Source: ECB

Asset Purchase Programme

Government bond yield developments



Source: Bloomberg

Asset Purchase Programme

Who's been buying and selling?

Domestics have been net sellers except insurance companies who have been net buyers

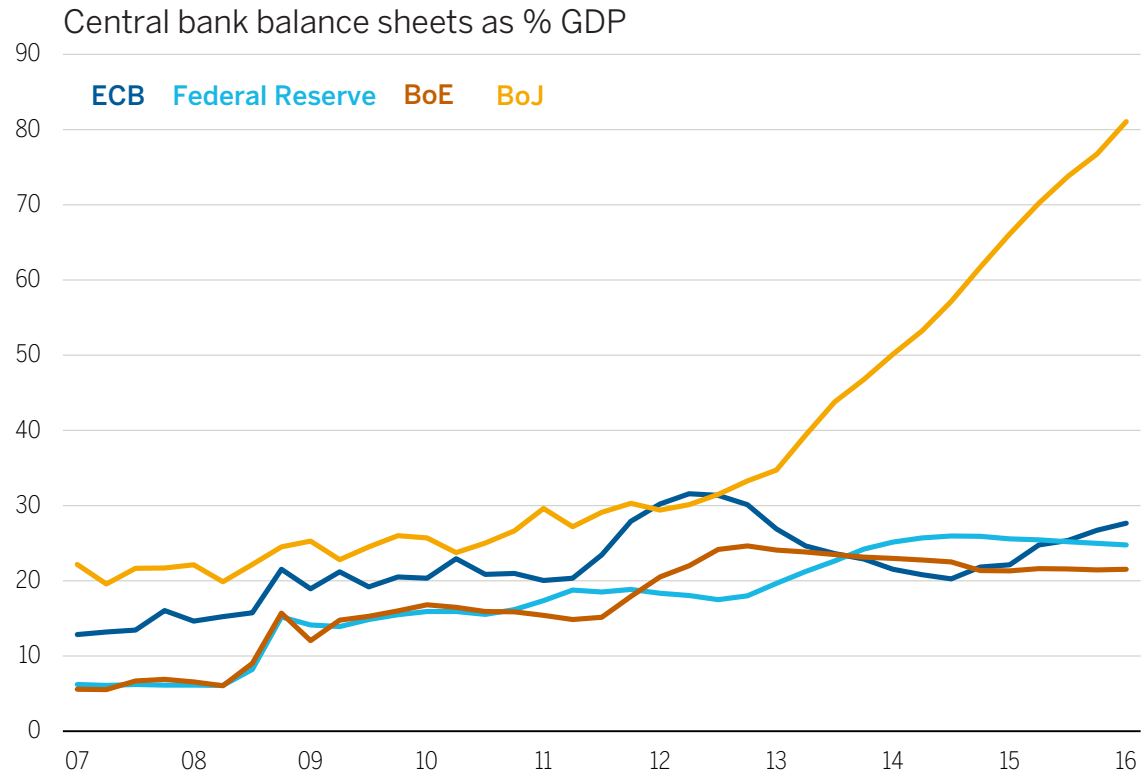
Japanese investors have been buying during 2016

Monthly avg	Net govt issuance	ECB		Domestics						Foreign		
		QE ¹	SMP	Total	MFI	Inv fund ²	Ins co ²	Pension funds ²	Other domestics	Total	Japan ³	Other
2014	26	0	-3	28	6	5	6	2	9	1	-1	2
1Q15	48	14	-1	3	15	10	5	1	-28	32	2	30
2Q15	15	44	-2	-16	-8	0	5	0	-13	-10	-8	-2
3Q15	0	42	-2	-19	0	2	-3	1	-19	-21	1	-21
4Q15	-4	44	-2	-32	-28	-5	-1	0	2	-15	2	-16
Jan 16	52	47	0	-5	56	-7	NA	NA	NA	10	6	3
Feb 16	8	47	-2	-13	13	-7	NA	NA	NA	-25	5	-30
Mar 16	85	47	0	-8	-5	-7	NA	NA	NA	47	4	43
Apr 16	-35	70	-7	-29	-7	NA	NA	NA	NA	-69	-1	-68
QE avg (Mar 15 – Apr 16)	14	46	-2	-20	-5	-2	1	0	-12	-10	0	-10

¹Includes a small portion of agency purchases | ²Quarterly data evenly split across months, in line with flow information | ³Japanese Ministry of Finance provides a sub-split on government securities net flows for only Germany, France, Italy and Netherlands. | Source: ECB, Japan BoP, JPMorgan

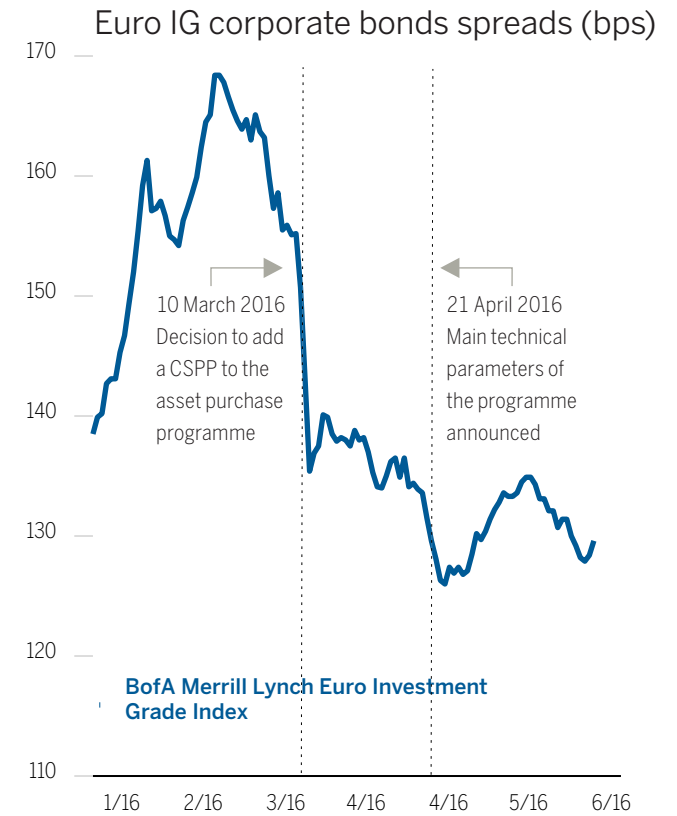
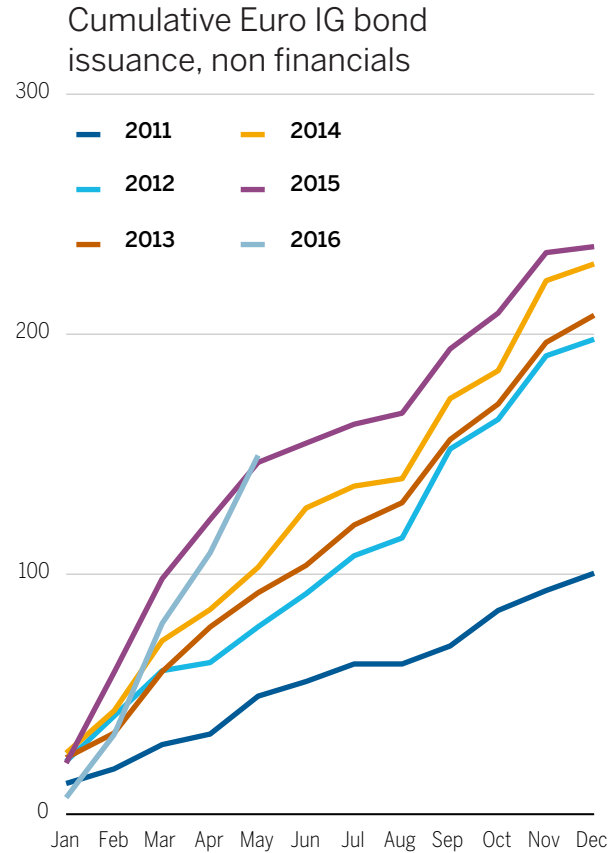
Asset Purchase Programme

ECB balance sheet expansion continues...
... but what remains in the toolkit



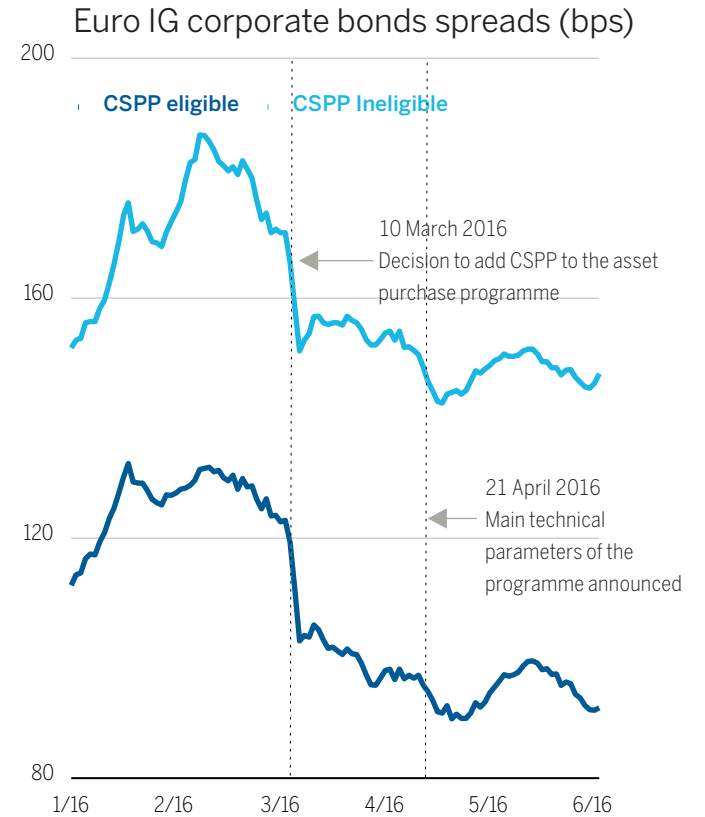
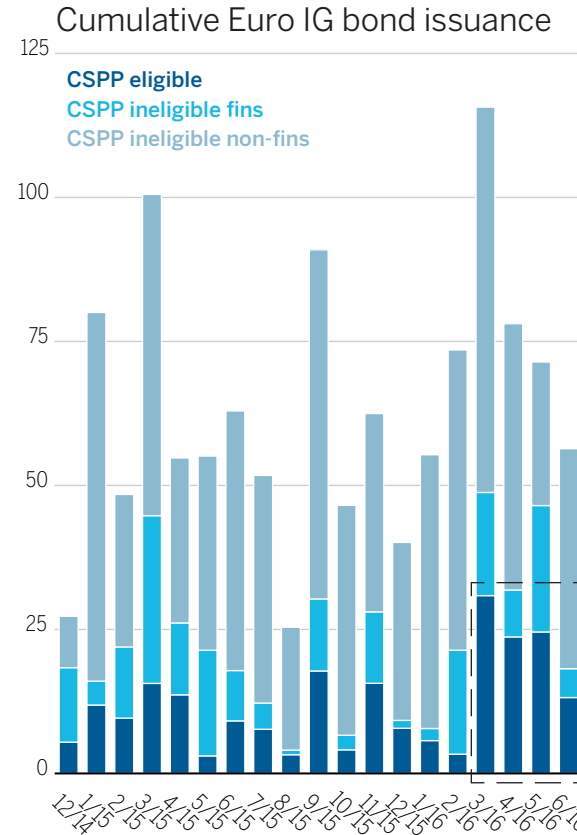
Asset Purchase Programme

Cumulative EUR issuance catching up with a record 2015 YTD...
...and spreads have tightened meaningfully since early March



Asset Purchase Programme

Bifurcation of issuance across eligible vs ineligible so far ...
...whilst spread compressions have been somewhat less discriminate



Sources: BofA Merrill Lynch, Dealogic, Danske Bank, Bloomberg

Thoughts and observations

An investor's perspective

1. Liquidity continues to be a challenge, we monitor this closely
2. Issuance is increasing
3. Corporate behavior
4. Investment opportunities
5. Brexit and its impact on Europe

For discussion

1. Central Bank toolkit: helicopter money and negative rates
2. Fiscal policy
3. Politics
4. China slowdown
5. Impact of low yields
6. Unwind of globalization

Important notice

WELLINGTON
MANAGEMENT®

Wellington Management Company LLP (WMC) is an independently owned investment adviser registered with the US Securities and Exchange Commission (SEC). WMC is also a commodity trading advisor (CTA) registered with the US Commodity Futures Trading Commission. In certain circumstances, WMC provides commodity trading advice to clients in reliance on exemptions from CTA registration. WMC, along with its affiliates (collectively, Wellington Management), provides investment management and investment advisory services to institutions around the world. Located in Boston, Massachusetts, Wellington Management also has offices in Chicago, Illinois; Radnor, Pennsylvania; San Francisco, California; Beijing; Frankfurt; Hong Kong; London; Luxembourg; Singapore; Sydney; Tokyo; and Zurich. ■ This material is prepared for, and authorized for internal use by, designated institutional and professional investors and their consultants or for such other use as may be authorized by Wellington Management. This material and/or its contents are current at the time of writing and may not be reproduced or distributed in whole or in part, for any purpose, without the express written consent of Wellington Management. This material is not intended to constitute investment advice or an offer to sell, or the solicitation of an offer to purchase shares or other securities. Investors should always obtain and read an up-to-date investment services description or prospectus before deciding whether to appoint an investment manager or to invest in a fund. Any views expressed herein are those of the author(s), are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients.

In Canada, this material is provided by Wellington Management Canada LLC, a US SEC-registered investment adviser also registered in the provinces of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Quebec, and Saskatchewan in the categories of Portfolio Manager and Exempt Market Dealer. ■ In the UK, this material is provided by Wellington Management International Limited (WMIL), a firm authorized and regulated by the Financial Conduct Authority (FCA). This material is directed only at persons (Relevant Persons) who are classified as eligible counterparties or professional clients under the rules of the FCA. This material must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment service to which this material relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. ■ In Germany, this material is provided by Wellington Management International Limited, Niederlassung Deutschland, the German branch of WMIL, which is authorized and regulated by the FCA and in respect of certain aspects of its activities by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). This material is directed only at persons (Relevant Persons) who are classified as eligible counterparties or professional clients under the German Securities Trading Act. This material does not constitute investment advice, a solicitation to invest in financial instruments or financial analysis within the meaning of Section 34b of the German Securities Trading Act. It does not meet all legal requirements designed to guarantee the independence of financial analyses and is not subject to any prohibition on dealing ahead of the publication of financial analyses. This material does not constitute a prospectus for the purposes of the German Capital Investment Code, the German Securities Sales Prospectus Act or the German Securities Prospectus Act. ■ In Hong Kong, this material is provided to you by Wellington Management Hong Kong Limited (WM Hong Kong), a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), and Type 9 (asset management) regulated activities, on the basis that you are a Professional Investor as defined in the Securities and Futures Ordinance. By accepting this material you acknowledge and agree that this material is provided for your use only and that you will not distribute or otherwise make this material available to any person. ■ In Singapore, this material is provided for your use only by Wellington Management Singapore Pte Ltd (WM Singapore) (Registration Number 201415544E). WM Singapore is regulated by the Monetary Authority of Singapore under a Capital Markets Services Licence to conduct fund management activities and is an exempt financial adviser. By accepting this material you represent that you are a non-retail investor and that you will not copy, distribute or otherwise make this material available to any person. ■ In Australia, Wellington Management Australia Pty Ltd (WM Australia) (ABN19 167 091 090) has authorized the issue of this material for use solely by wholesale clients (as defined in the Corporations Act 2001). By accepting this material, you acknowledge and agree that this material is provided for your use only and that you will not distribute or otherwise make this material available to any person. Wellington Management Company LLP is exempt from the requirement to hold an Australian financial services licence (AFSL) under the Corporations Act 2001 in respect of financial services, in reliance on class order 03/1100, a copy of which may be obtained at the web site of the Australian Securities and Investments Commission, <http://www.asic.gov.au>. The class order exempts a registered investment adviser regulated by the SEC, among others, from the need to hold an AFSL for financial services provided to Australian wholesale clients on certain conditions. Financial services provided by Wellington Management Company LLP are regulated by the SEC under the laws and regulatory requirements of the United States, which are different from the laws applying in Australia. ■ In Japan, Wellington Management Japan Pte Ltd (WM Japan) (Registration Number 199504987R) has been registered as a Financial Instruments Firm with registered number: Director General of Kanto Local Finance Bureau (Kin-Sho) Number 428. WM Japan is a member of the Japan Investment Advisers Association (JIAA) and the Investment Trusts Association, Japan (ITA). ■ WMIL, WM Hong Kong, WM Japan, and WM Singapore are also registered as investment advisers with the SEC; however, they will comply with the substantive provisions of the US Investment Advisers Act only with respect to their US clients.

©2016 Wellington Management. All rights reserved. | As of January 2016