BCα Research
eAcademy

Shape Your Conviction™

Course Overview

Fixed Income

Fixed Income

Overview

Even more than other asset classes, macroeconomics is a key driver of returns in fixed income markets. But with so many different macro indicators floating around, it can be difficult to sift through the noise to arrive at a coherent portfolio strategy.

The BCA Research Academy focuses on teaching the investment strategies that we have honed over the past 65 years, across macroeconomics, sector analysis, and quantitative modeling that help you sift through the noise.

The BCA Research Fixed Income Academy teaches investors how to apply BCA's framework for investing in bond markets, with a focus on how to determine which macro signals are important and which should be ignored.

In each case, the course does not simply present students with a series of hands-off models to follow. Rather, the course presents the logic behind the macro factors that drive different bond market prices, empowering students to create their own models.

CFA Institute members that attend this BCA Research Academy course can claim 8 CE credits.

Description

In this eight-hour course, split into eight 1-hour sessions, participants will learn about BCA Research's framework for investing in fixed income markets. This framework relies heavily on macroeconomic indicators and assessments of monetary policy.

In the sessions on duration trading, participants will learn how to apply BCA's Golden Rule of Bond Investing. They will also encounter the most important macro drivers of bond yields and will use them to create a 6-12 month forecast for the 10-year US Treasury yield.

The session on the yield curve focuses on how to implement steepening and flattening positions using duration-matched butterfly trades.

The session on TIPS focuses on using the concept of Adaptive Expectations to forecast TIPS breakeven inflation rates.

The sessions on spread product and the corporate credit cycle cover different valuation metrics that can be used to value spread product, the concepts of factor investing and duration-times-spread, and how the macro environment interacts with investor psychology to determine the path of credit spreads over time.

The session on global bond investing covers the pros and cons of currency hedging and how to craft a government bond portfolio using yield betas.

The course relies heavily on case studies to reinforce key concepts, and two of the eight sessions are devoted to group activities.

This online course is eligible for 8 hours of Continuous Learning Hours. CFA Institute members are encouraged to self-document their continuing professional development activities in their online CE tracker.

Course Highlights

Here's what we'll cover:

- Duration trading and government bond yield forecasting
- Corporate bond investing
- Trading the slope of the yield curve
- Inflation protection markets
- How to allocate a global portfolio of government bonds

Who Should Attend?

This course is ideal for:

- Investors who need to understand how macro trends impact the fixed income markets
- Buy-side research, portfolio management, and quantitative investment professionals
- Sell-side fixed income, and bond sales and research professionals
- Family office investors and private banking professionals
- Junior-to-mid level fixed income strategists

Instructor

Ryan Swift
Strategist, *US Bond Strategy*

Ryan is currently BCA Research's Strategist, U.S. Bond Strategy. Since joining BCA in 2010 he has held the position as a Fixed Income Strategist. Prior to BCA he completed his studies in finance. Ryan holds an MSc in finance from Concordia University and a BCom from McGill University.

Course Agenda:

Week 1

Session 1:

Duration Trading

- Some bond basics and term structure theories.
- The two main components of nominal bond yields: Rate expectations and the term premium.
- Extracting rate expectations from bond yields.
- BCA's "Golden Rule" framework for duration trading.

Case Study:
Alan Greenspan's "Bond Conundrum"

Session 2:

Monetary Policy

- The goal of monetary policy and an overview of central bank operations in the US and other countries.
- Conventional central bank models and concepts (r*, NAIRU, the Phillips Curve).
- Strong vs. weak forward rate guidance.
- The relationship between monetary policy and financial markets.
- Discussion: What is Quantitative Easing and how does it work?

Week 2

Session 3:

Macro Drivers Of Bond Yields

- We present the five main macro drivers of bond yields and discuss why each is important.
- Exercise: Forecast the 10-year US Treasury yield by assessing the current state of the five macro drivers.

Session 4:

Inflation, TIPS & The Yield Curve

- The relationship between nominal yields, real yields and inflation expectations.
- The pros/cons of different measures of inflation expectations.
- Valuing TIPS breakeven inflation rates using an Adaptive Expectations framework.
- Implementing yield curve trades using butterfly spreads.
- Discussion: The correlation between the oil price and inflation expectations.

Week 3

Session 5:

Introduction To Spread Product

- The importance of distinguishing between total and excess returns.
- Valuation and risk measures for corporate bonds and other spread products.
- Assessing risk versus reward using BCA's Excess Return Bond Map.
- Factor investing.
- How to use Duration-Times-Spread.

Session 6:

The Corporate Credit Cycle

- A look at how bond returns vary across the different stages of the credit cycle.
- Macro theories of the credit cycle.
- The role of expectations and investor psychology.
- Indicators that can help predict a turn in the credit cycle.
- Modeling the corporate default rate.

Week 4

Session 7:

Global Bond Investing

- How to allocate a government bond portfolio between different countries.
- Determining and using yield betas.
- The importance of currency risk and deciding when to hedge.
- Calculating hedged yields.
- Discussion: The (missing) link between bond yields and government debt.

Session 8:

Investment Committee Meeting

- A group activity where participants create their own model fixed income portfolios and justify their decisions.

Additional Material:
Participants will receive reading materials that will supplement the in-class learning experience.

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