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CIO spring update:

Rates, politics and asymmetric opportunities

LGIM

Foreword

Sonja Laud
Chief Investment Officer

When we started planning this publication back in March, markets were still pricing in a significant amount of policy easing from the US Federal Reserve (Fed), the world's most important central bank. Those expectations have since almost entirely evaporated.

Indeed, following signs that inflation may prove stickier than hoped, some investors are even positioning for the risk of further policy tightening, after the most aggressive cycle of rate increases in living memory.

Despite this shift in market pricing, we believe valuations still suggest something of a 'Goldilocks scenario' for the global economy, in which growth is relatively resilient and inflation ultimately moderates. This makes markets vulnerable to shocks, in our view, whether from geopolitical strife, national politics or macroeconomic data.

> **"We believe this increasingly fragile market environment actually presents investors with an asymmetrical opportunity set."**

1. It should be noted that diversification is no guarantee against a loss in a declining market.

2024 | CIO spring update

In light of this backdrop, we have devoted this document to addressing some of the biggest questions facing investors today. As ever, we are mindful of the need to be humble in our conclusions. Our takeaways include:

- Despite economic divergence, US Treasuries continue to drive rates market returns
- Pandemic-era activity explains some counterintuitive moves in credit spreads
- Four long-term 'mega-trends' are set to reshape private markets

We also weigh how a number of key elections over the coming months might shape the investment landscape.

To this end, we outline why India's election and bond index inclusion may enhance the allure of Indian government bonds. We suggest that a Labour Party victory in the UK could defer Bank of England easing. And we argue that market reaction to the US presidential election may hinge on immigration policy.

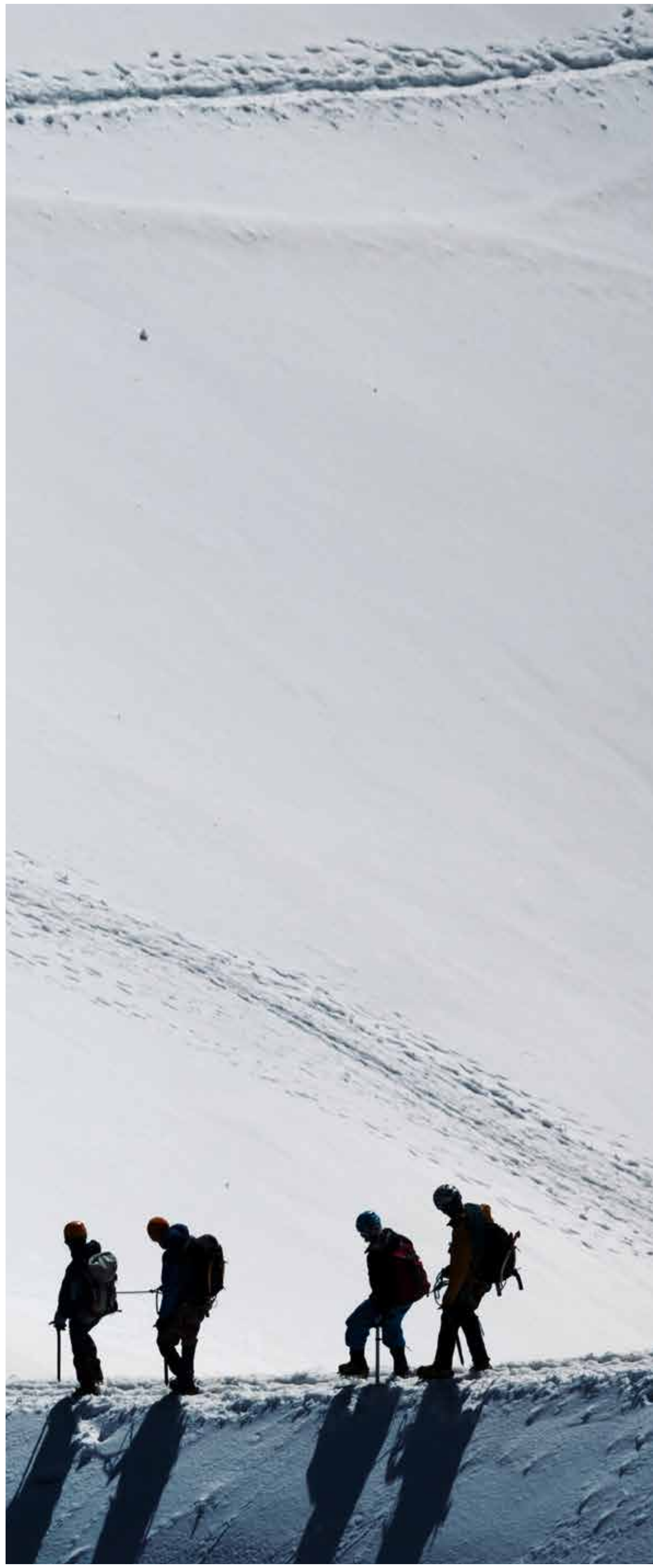
Uncertainty and change

In light of the still-rosy macro outlook that investors are discounting, the interconnectedness of markets and the broad range of both political and geopolitical risks on the horizon, we anticipate further market volatility over the coming months.

But it's not all doom and gloom for investors. We believe this increasingly fragile market environment actually presents investors with an asymmetrical opportunity set, all the more so should the global economy stray from the narrow path that is currently priced in.

Taking a longer-term view, beyond the current geopolitical fault lines – and even political events scheduled later this year – we believe uncertainty and change are probably the only two constants investors can expect. That's because we're all adjusting to a multi-polar world, during a period of frenetic technological advances.

This makes diversification[1] more important than ever, in our view, to help withstand a range of economic scenarios – and mitigate the impact of any single market event.



Asset Allocation

Uncertainty abounds

With geopolitical tension rising, we consider a fundamental choice confronting investors, and what it takes to remain objective.

Tim Drayson
Head of Economics

Chris Teschmacher
Fund Manager

Chris Jeffery
Head of Rates Strategy

In our latest Asset Allocation Outlook, we discussed the factors driving the surprising resilience of the US economy. Yet the US must tread a narrow path to rebalance smoothly and then stay at equilibrium.

We see a wide range of possible outcomes. Growth could still slow unexpectedly as the tailwinds fade, revealing that monetary policy is tight after all; or ongoing fiscal support, alongside a revival in private sector credit and business investment, could keep the economy running hot. Overall, inflation risks appear tilted to the upside given limited economic slack.

The situation across Europe is somewhat different, given less fiscal stimulus and more adverse supply shocks. After a period of stagnation, growth seems likely to recover gradually through the course of the year. Falling headline inflation is providing some relief to squeezed real incomes and banks are no longer tightening their lending standards.

The European Central Bank (ECB) has guided expectations for a June cut and seems determined not to be constrained by the Fed. The appetite for patience is more limited than in the US given the current lack of growth momentum.

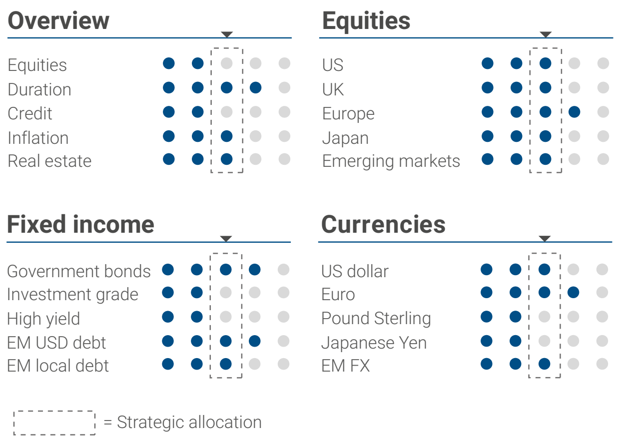
The Bank of England would like to follow the ECB, but might find that sticky core inflation and stubbornly strong wage growth make it hard to justify any premature easing of the restrictive monetary policy stance. Jeremy Hunt, Chancellor of the Exchequer, also seems keen to cut UK taxes again in the autumn if there is any fiscal space, arguably in an attempt to bolster the Conservatives' electoral prospects.

Any European recovery remains fragile and is vulnerable to shocks. Another bout of inflation risks de-anchoring existing expectations and will make it hard for central banks to offset the hit to real incomes and any adverse reaction in financial markets.

Geopolitics could provide that destabilising shock, as noted by Sonja, with investors increasing their focus on tensions in the Middle East and the potential fallout from multiple elections scheduled for this year, not least in the US.

As a result, our posture across portfolios is broadly defensive, with an underweight to equities and credit. We are also somewhat overweight duration.

Our key asset class views



This schematic summarises the combined medium-term and tactical views of LGIM's Asset Allocation team as of 22 April 2024. Asset allocation is subject to change. The midpoint of each row is consistent with a purely strategic allocation to the asset/currency in question. Regional equity views should be read in conjunction with the overall equity view. The strength of conviction in our medium-term and tactical views is reflected in the size of the deviation from that mid-point.
The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

"The market is increasingly questioning assumptions about neutral interest rates, not just the likely near-term path."

The rates outlook

The performance of yield-sensitive assets in the first quarter was uncomfortably reminiscent of the selloffs of 2022 and 2023. We saw rising nominal yields in almost all major markets as investors reassessed the prospects for rate cuts in the second half of the year.

That, in turn, undermined the case for assets competing with government bonds for investor flows. There are a few points that we would draw out within the broader picture of rising yields:

1 US Treasuries remain the overwhelmingly dominant return driver. Despite the ongoing malaise in European and UK growth, and some central banks talking up the prospects of imminent rate cuts, global bond markets have marched to the beat of the US drum. We've highlighted that dependence before, with approximately 80% of the volatility in gilts and bunds explainable by developments in the US market, according to our research. Divergent economic prospects have played only a marginal role in influencing yields.

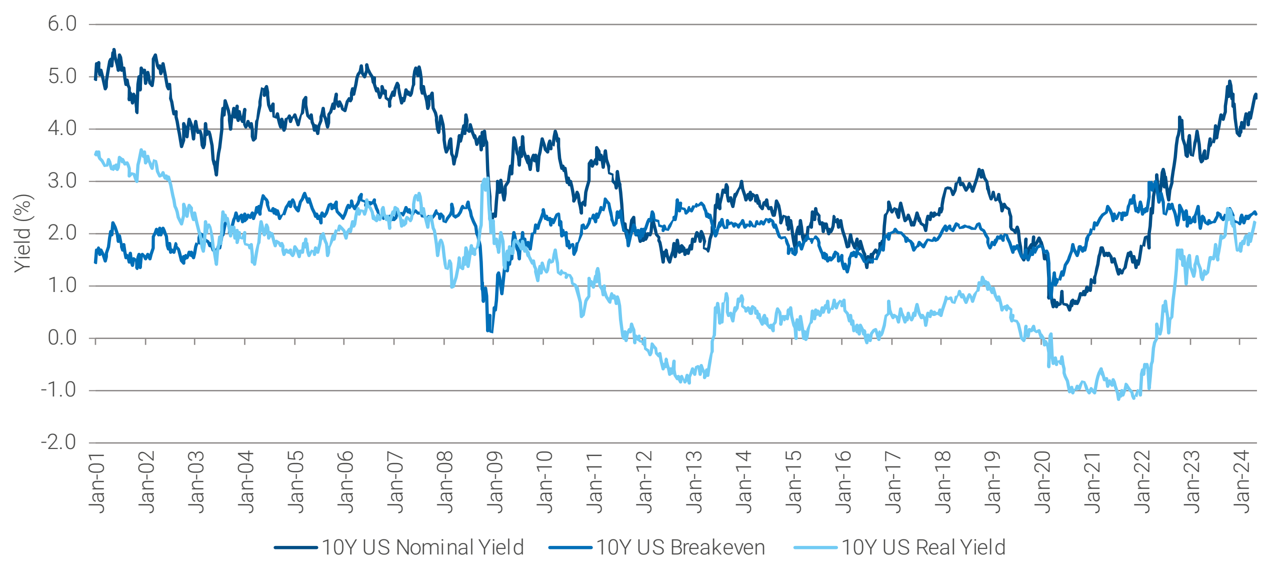
2 Due to the ongoing resilience of the US economy, the market is increasingly questioning assumptions about neutral interest rates, not just the likely near-term path. The aggressive curve flattening that was previously associated with rising yields has been replaced by a glacial steepening. From the perspective of risk assets, we believe that so-called bear steepening is likely to be less damaging as it implies confidence in higher sustainable interest rates rather than fears of central banks overtightening. Expectations of higher trend growth flow from both stronger-than-anticipated immigration and the tantalising hope of AI-driven productivity enhancements. Equally important has been the robustness of corporate cashflows to higher yields, given large cash piles among the largest stocks and the absence of rapidly resetting mortgages in the US.

3 Inflation forecasting remains a thankless task. Weak US core inflation, on a sequential basis, in the last quarter of 2023 gave way to a series of stronger numbers in the first quarter of 2024. It is very hard to know whether that is attributable to problems with seasonal adjustments or a genuine reacceleration. Our bottom line is that the process of disinflation continues. Most importantly, we see slack slowly building in the labour markets on both sides of the Atlantic. However, hysteresis will continue to frustrate those hoping for a rapid normalisation. Patience will be required as yesterday's inflation shock continues to propagate into strong wage and rent growth.

Fiscal promises

As we move through 2024, market attention will increasingly gravitate to the pending US election and the fiscal promises of the major parties **(for more, see our scenario analysis on pages 14-15)**. Neither party is offering a model of fiscal restraint with the debate rotating around whether to spend more money or cut taxes. Political voices calling for the opposite path are finding little traction in the current environment.

Dissecting the move in US 10-year Treasury yields



Source: LGIM, Bloomberg as at 22 April 2024. **Past performance is not a guide to future performance. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.**

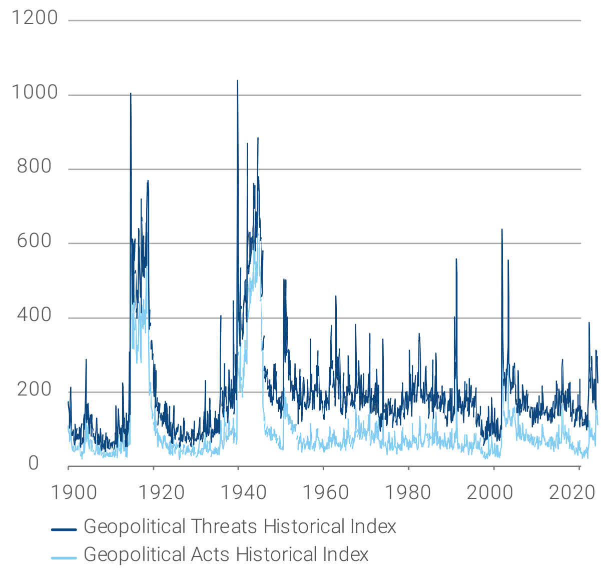
Prepare, don't predict

Geopolitical events are incredibly hard to predict. In many cases investors are attempting to forecast the idiosyncratic decisions of a few governments, where power can be concentrated among very few individuals. Yet the prominence of geopolitical events, their emotive nature, and their perceived near-term impact on markets make them a hotbed for behavioural biases to emerge, which complicate the decision-making process, often in a destructive way.

Our investment process for these events is centred around our motto: "prepare, don't predict". We emphasise building resilient portfolios that aim to deliver the long-term objectives of our clients, withstanding a range of economic outcomes. We prefer to survive through all scenarios, rather than thrive in just one.

That means seeking to build diversified portfolios and conducting significant scenario planning in advance; during geopolitical risk events themselves, it involves drilling down to the fundamentals of how growth, inflation and corporate earnings may be impacted.

Geopolitical risks spike



Source: LGIM, Macrobond as at 22 April 2024. **Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.**

To hedge or not to hedge

Should the action bias be too much to resist, a significant choice confronts every investor: whether to hedge against geopolitical risks or to try to capture risk premia that may be present. For many, the gut reaction is to hedge, by reducing exposures to potentially impacted asset classes, or adding to protective allocations.

This option is often satisfying; it feels good, reduces stress and is easy to communicate to clients. But equally, this approach may reduce portfolio diversification, be costly as some of the risk has already been priced into markets, incur costs, and ultimately reduce expected portfolio returns.

This leads to a different perspective that invites us to rethink our strategy towards these risks. While taking positive exposure to each geopolitical event might pose an asymmetric risk – small gains if the risk doesn't materialise, against large losses if it does – a repeated engagement with these risks can yield a premium.

In our view, this type of contrarian strategy can potentially reap rewards for certain investors. A health warning is needed, however: this strategy requires a steady hand and a robust process.

Active Fixed Income

Rising stars: outshining fallen angels

An increase in interest rates should in theory raise funding costs and pressure corporate earnings, thereby weakening credit quality. So far, the practice has been somewhat different.

Madeleine King
Head of Research and Engagement

James Odemuyiwa
Senior Credit Analyst

It may come as a surprise to some investors that corporate bond spreads have, in recent years, comfortably shrugged off pressure from higher interest rates. While two-year Treasury yields have increased from near zero to 5%,[2] spreads have rallied to pre-pandemic levels.

What's behind the spread tightening? We believe it's partly down to an improvement in underlying fundamentals and the fact that net credit quality has consistently improved since the onset of COVID-19. Furthermore, bottom-up analysis by our global research team suggests that we will continue to see more upgrades than downgrades over the next one to two years, assuming that our base case of a soft landing remains intact.

We believe that this trend can partly be explained by good forward planning by companies. The higher quality corporations used the multi-year environment of ultra-low interest rates to lock-in low coupons on long-dated bonds, thereby reducing their sensitivity to rising rates.

While a 'higher for longer' environment would ultimately result in higher interest costs, a well spread-out maturity curve allows companies time to forward plan and reinforce their balance sheets, ahead of any step change in interest costs.

2. Source Bloomberg as at 22 April 2024.

Healthy balance sheets

In addition, during the pandemic, many companies built up cash balances in anticipation of a pronounced global recession. Afterwards, amid continued macro uncertainty and supply chain volatility, a large number of corporations retained higher-than-average cash levels.

At the time, some investors questioned the efficiency of this approach but, as interest rates have risen, companies with large liquidity positions are now beginning to see more notable returns on their cash balances. For many high-quality companies, interest income has exceeded interest expense for the first time in years, with a resulting boost to earnings and cashflow.

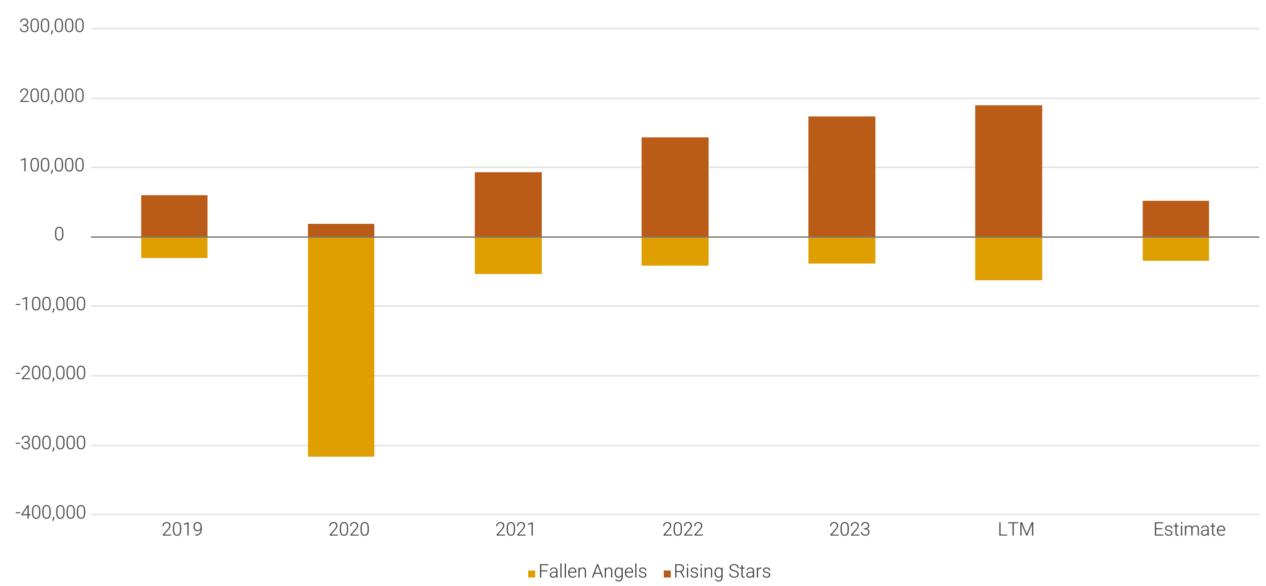
Although credit quality is improving on average, this isn't true for all companies and cracks are starting to show in certain parts of the market. Over the last 12 months, more companies have been upgraded to investment grade ('rising stars') than downgraded to high yield ('fallen angels'), but the absolute volume of fallen angels has steadily increased since the pandemic. While we believe that a meaningful deterioration in the macroeconomic backdrop would be required for this trend to continue, even under our soft-landing base case, we expect the net improvement to moderate from here.

Real estate: the weakest link

For the very weakest companies, the higher-rates environment has been much harder to negotiate and, as a result, defaults are rising. The biggest casualties so far are in the real estate sector, while several high-profile distressed issuers have focused investor attention in recent months. Our analysts expect defaults to rise further, but levels should remain subdued by historical standards, and the average quality of the high-yield bond market remains better than in the past. Some of the riskiest borrowers have turned to the private credit and leveraged loan markets instead (for more on this, see Rob's article on page 12).

> **"For many high-quality companies, interest income has exceeded interest expense for the first time in years."**

Fallen angels versus rising stars (US$ m)



Source: BAML, LGIM as at 1 April 2024. Note: Figures denote the aggregate amount outstanding for bonds entering/leaving the BAML high yield index following downgrades/upgrades from/to investment grade. LTM = last twelve months. **Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass. The value of any investment and any income taken from it is not guaranteed and can go down as well as up, and investors may get back less than the amount originally invested.**

Solutions

What a Labour win could mean for gilts

Investors are weighing the implications for government borrowing following the UK election expected later this year. Could higher gilt yields be on the horizon?

Alex Mack
Head of Rates and Inflation

Guy Whitby-Smith
Head of Solutions Portfolio Management

With Labour enjoying a large lead in the polls, we believe gilt investors will increasingly pay attention to what the shadow chancellor has to say. Even though we don't expect much extra detail between now and the election, by the time we get to polling day we expect investors to have much stronger views.

Ask investors today, "What does a Labour Party mean for the UK economy and the UK gilt market?" and you'll probably get a version of "nothing dramatic... no more spending than the Conservatives". But we don't think that view can last.

Instead, we expect investors will increasingly focus on the continued political pressure to push the spending envelope higher as public dissatisfaction with UK public services rises, with the potential for upward pressure on gilt yields as a result.

That's a lot of bonds

So does that mean whoever wins the next election could have to issue lots of bonds? Yes, but we strongly believe that the main impact of a UK government decision to spend and borrow more will primarily come via expectations for future Bank of England (BoE) rate moves.

Additionally, the maturities at which the government chooses to borrow can have a meaningful impact on the shape of the gilt curve. While the impact of declining pension fund demand for long-dated gilts and index-linked gilts has been given a lot of airtime in recent years, we think it's worth taking a step back. Neither supply nor demand are static.

As the amount demanded by pension funds declines, the UK Debt Management Office (DMO) is constantly trying to re-assess how much demand remains and adjust issuance to match. That one-two step dance, where demand declines and the DMO reacts, might mean that supply is constantly a bit behind the curve. But we don't think this would necessarily lead to drama in the gilt market, as long as the DMO acts responsively.

Indeed, we expect the DMO will show enough flexibility to avoid drama, and with a new chief executive – Jessica Pulay – just announced, it has a unique opportunity to convince investors of the same.

"We expect the DMO will show enough flexibility to avoid drama."

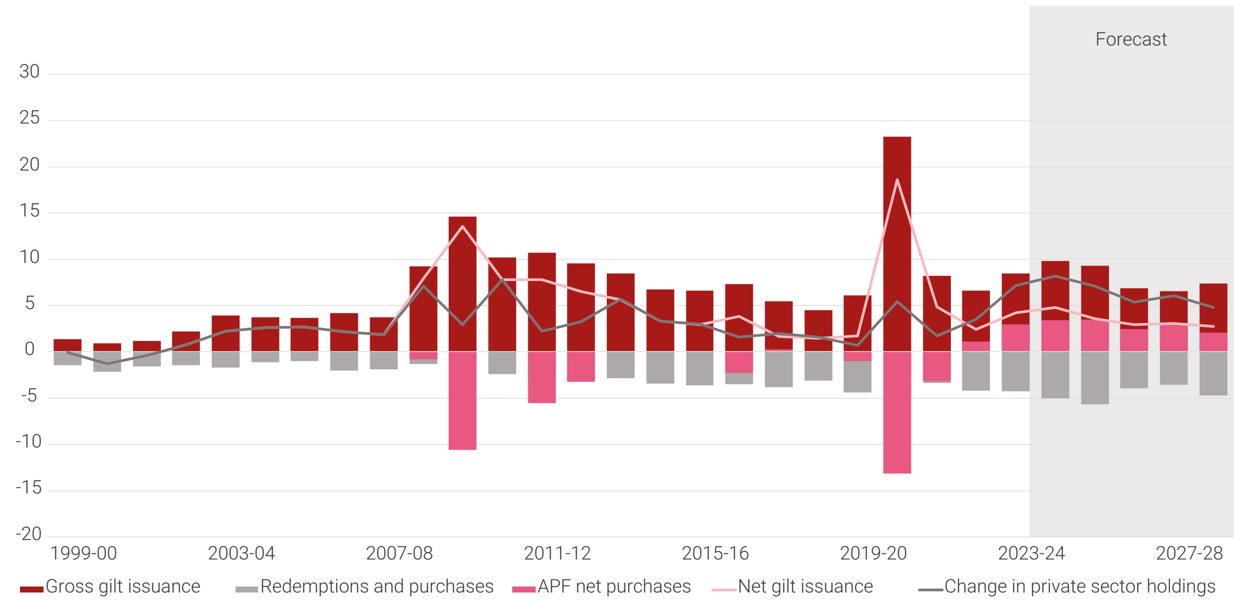
Higher but not steeper

As a result, we don't believe that the potential for large fiscal deficits and correspondingly high gilt issuance necessarily means that relatively higher yields on longer-dated bonds (i.e. steeper yield curves) are particularly likely. Instead, as mentioned above, we believe that the main impact of more spending could come through expectations for policy easing from the BoE being pushed back.

So, as we get closer to the election, while we do expect upward pressure on gilt yields overall as investors form stronger views about what the Labour Party could mean for borrowing levels, we're not particularly worried about steepening risk.

This will be welcome news for pension schemes, as it means that we believe the window for them to seek to take advantage of elevated bond yields is likely to remain open for a little while longer.

UK gilt issuance and change in private sector holdings of gilts



Source: DMO, OBR as at April 2024. **Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass. The value of any investment and any income taken from it is not guaranteed and can go down as well as up, and investors may get back less than the amount originally invested.**

Private Markets

Near-term opportunities and long-term trends

After the correction, we assess those areas that we believe might benefit over the coming months – and the megatrends set to define the years to come.

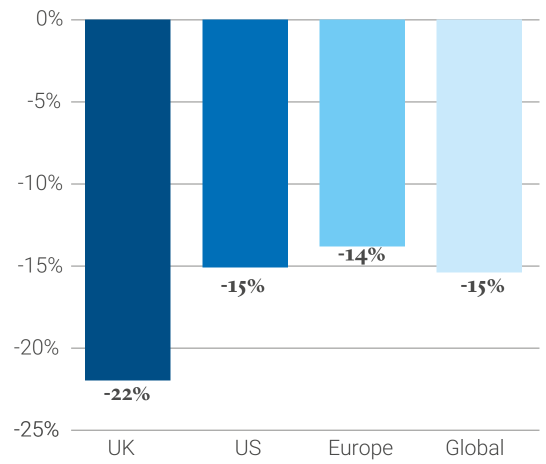
Rob Martin
Global Head of Investment Strategy & Research,
LGIM Real Assets

2022 was a challenging year for private markets, and 2023 offered little respite. After a long period of growth, the pace of new allocations dragged, thanks to higher interest rates and denominator effects (when private market weightings rise on the back of corrections in public market prices).

We also saw wide bid-offer spreads in the underlying investment markets and low levels of transactional activity, limiting liquidity. One of the bright spots was private credit, where rate increases led to some of the highest expected returns since before the global financial crisis.

Asset pricing corrected over the course of 2023, increasing yields for real estate and infrastructure and reducing multiples for private equity. This provided a boost to expected returns and help to rebuild risk premia to meet a higher cost of capital. The 'everything' rally of late 2023 will also have meant that many investors ended last year with a lower allocation to private markets than they started with. We think this could in turn lead to an upswing in activity for new allocations.

Real estate valuations: recent peak to Q4 2023 (Europe to Q3 2023)



Source: MSCI as at 31 December 2023. **The value of any investment and any income taken from it is not guaranteed and can go down as well as up, and investors may get back less than the amount originally invested.**

The fundamental picture

However, we cannot lose sight of a complex macro environment, as detailed by Tim earlier in this publication.

While markets still expect interest rate cuts in 2024, the risk remains that inflation will persist at elevated levels for longer. This would weigh on the degree of policy easing we can expect from central banks – and on strategies that rely on cheap leverage. An extended rate cycle is likely to support interest for floating-rate debt strategies. We also see index-linked assets, such as long-income real estate, as having a useful role to play in mitigating the risk that inflation will prove sticker than markets hope.

These themes are all already acting as powerful drivers in the evolution of the global economy; we believe their impact is only going to grow.

Within private markets, we see these megatrends as particularly beneficial for infrastructure supporting the energy transition, residential real estate, urban logistics and assets associated with the digital economy.

We think this will also play out in the private equity sphere: venture capital investing has experienced a challenging period for returns and allocations. For investors with a tolerance for illiquidity and access to expertise, early stage investing into businesses – particularly those with a focus on intellectual property and technology – seems to us an appealing way of adding to wider portfolio returns.

"Less policy easing would likely weigh on strategies that rely on cheap leverage."

The four Ds

Looking to the longer-term, we see value in aligning investments with areas supported by exposure to a number of long-term trends.

This investment thesis is based on four themes we see as reshaping markets in the years and decades to come:

1 Demographic change

3 Deglobalisation

2 Decarbonisation

4 Digitalisation

Active Fixed Income

US election: different this time?

While US elections matter, the reality is that they are rarely as meaningful for financial markets as investors expected... until now.

Jason Shoup
CIO, LGIM America, and Co-Head of Global Fixed Income

Jason Becker
Head of US Credit Strategy, LGIM America

This time round, we believe US election risk has the potential to create increased volatility in financial markets.

The starkly diverging views of Joe Biden, the Democratic incumbent, and his Republican rival, Donald Trump, on the matter of immigration – and to a lesser extent on tariffs – suggest a pivotal moment for the US economy in 2025 and beyond.

In the box, we outline the likely policy scenarios in the event of a clean sweep victory (both houses being controlled by the Democrats or Republicans) or the possible implications of a divided government. For each scenario, we outline the likely policy outcome and impact on inflation (where our scores range from -3 to +3).

A Democrat clean sweep

- Increased spending, income tax hikes and a child tax credit extension - net fiscal stimulus. Immigration levels remain high
- Impact on inflation +1

A Republican clean sweep

- All Trump tax cuts extended, increased defence spending, the imposition of renewed tariffs (potentially recycled into additional tax cuts) and a sharp reduction in immigration
- Impact on inflation +2

A divided government under Biden

- Smaller increase in government spending, and an expiry of some of the tax cuts
- Impact on inflation -1

A divided government under Trump

- The imposition of renewed tariffs and a sharp reduction in immigration. Smaller increase in government spending, and an expiry of some of the tax cuts
- Impact on inflation +1

Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

A key election dynamic: immigration

According to recent polls from Gallop and the Wall Street Journal, immigration is quickly becoming the primary policy concern of voters, with almost three quarters of swing state voters believing immigration and border policies under Biden are going the 'wrong' way. The president's perceived relaxed control over the border has been linked to a big increase in immigration during his tenure, following a net decrease in immigration under Trump. It is this surge in numbers that has propelled US growth over the past 18 months or so.

The key question we are discussing as a team is: what might happen to US economic growth, and by implication financial markets, if Trump reverses Biden's immigration policy? While it is difficult to know for certain, the US economy may have failed to avoid recession last year without such a large supply-side labour shock. What happens to immigration policy going forward under a potential Trump presidency is therefore of major economic significance.

Tariffs would also constitute a wildcard under a potential second Trump presidency and are consequential to the pace of disinflation. Should the US impose tariffs precisely as the rest of the world (i.e. China) begins a potential growth recovery in 2025, rising goods prices could spark fears of a reacceleration in inflation.

Implications for investors

As is always the case, pinpointing the precise moment when elections start to matter to markets is a challenge. While it would be unusual to see evidence more than six months in advance, the recent rise in long-maturity US Treasury yields could be an early indication of election-related fiscal risk. Regardless, it is likely that markets will start to trade the election in the coming months. Last year's mix of surprisingly robust growth and disinflation look to be at least partially attributable to fiscal stimulus and the surge in immigration.

Unfortunately, politics is likely to conspire against such an economically favourable backdrop persisting beyond November's election. Exactly what changes take place will depend on who wins. Markets should take note.

"Tariffs would also constitute a wildcard under a potential second Trump presidency."

EMD & Index / ETFs

India's time to shine

As the world's biggest democracy goes to the polls, we examine the political powerhouse that is the BJP and consider how index inclusion could energise the country's capital markets.

Uday Patnaik
Head of Emerging Market Debt

Aanand Venkatramanan
Head of ETFs

Lee Collins
Head of Index Fixed Income

India kicked off elections for its lower house of parliament on 19 April. The sheer scale of the process – which involves nearly a billion voters – means elections will take 44 days, with the results expected on 4 June.

Although the size and diversity of the electorate imply a noisy democracy, elections generally pass without incident, and results are broadly accepted. We expect this to continue. There are more than 2,500 registered political parties, but the national contest will be between the ruling Bharatiya Janata Party (BJP)-led coalition, the National Democratic Alliance (NDA) and the Indian National Developmental Inclusive Alliance (INDIA), an opposition coalition led by the Indian National Congress.

The NDA is widely expected to secure a third five-year term in office, with Prime Minister Narendra Modi leading the central government for a third time, taking the BJP's incumbency to 15 consecutive years by 2029.

Modi mania

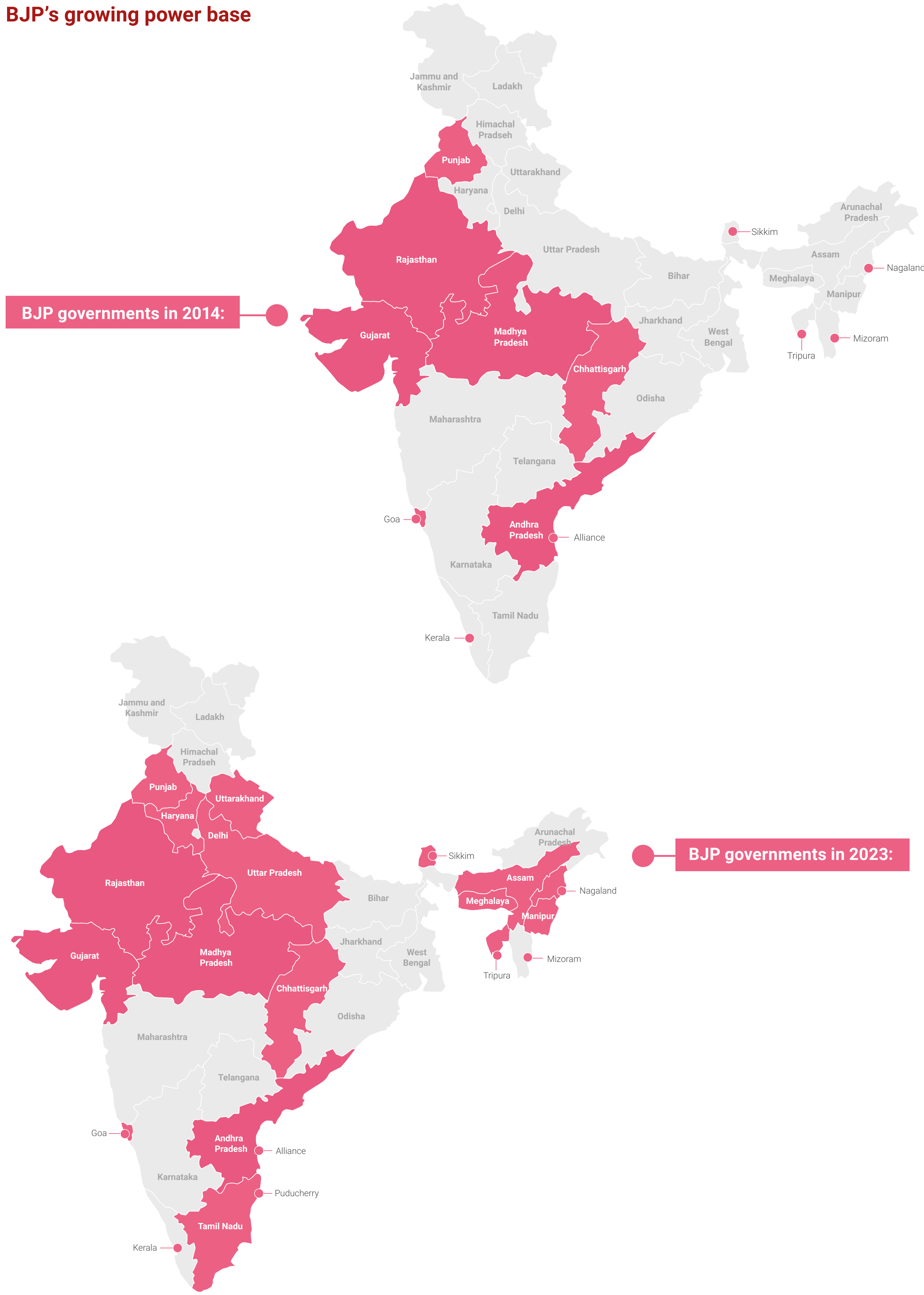
Although decentralisation in India means all politics is local, the expected BJP win at the national level reflects an efficient and well-funded party machine and an opposition unable to counter Modi's widespread popularity – his approval rating stands at 75%, among the highest globally. [3]

While this will likely lead the BJP to another majority, winning more seats will require further inroads into southern and eastern India. That will pit the BJP against two key allies of the Congress: India's third-largest party, the DMK, in the south; and the TMC, India fourth largest party, in the key eastern state of West Bengal.

We expect financial markets to take the incumbent's likely victory positively, as it signals policy continuity, and given the administration's track record of institutional reforms and infrastructure investment.

3. Source: https://www.ipsos.com/en-in/approval-rating-pm-narendra-modi-soars-75-feb-2024-10-jump-sept-2023-wave-ipsos-indiabus-survey

BJP's growing power base



Source: Election Commission as of December 2023.

Index inclusion: a milestone for India's capital markets

In September JPMorgan confirmed Indian government bonds (IGBs) would be added to its widely followed GBI-EM Global Diversified Index. Inclusion will be phased over 10 months, starting in June; once it is complete, IGBs will account for 10% of the index – putting India on a par with China.[4]

This decision reflects the increasing accessibility of the country's local currency government debt market, thanks to the issuance in recent years of Fully Accessible Route (FAR) government bonds, which are free of quotas and more readily investible by foreign investors.

In March, momentum grew with confirmation that IGBs would be included the Bloomberg Emerging Market (EM) Local Currency Government Index from 2025.[5] Longer term, it's expected that foreign ownership of IGBs will rise from the current level of around 2% to 9% by 2030.[6]

We continue to anticipate further consultations on potential India bond inclusion in the Bloomberg Global Aggregate index and FTSE's WGBI index. Inclusion in these indices would further increase foreign investor flows into IGBs.

Accessing the market

Index inclusion of IGBs raises practical considerations for investors. Adding exposure to IGBs ahead of this 'wall of cash' may appeal to investors with a positive view on India, who seek to actively pre-empt potential spread-compression following inclusion – as well as to those simply desiring a pragmatic way of implementing a passive position.

In terms of gaining exposure, direct investment in IGBs may potentially be attractive for investors seeking greater control over bond selection – an investor buying IGBs directly has the option to select those bonds with the specific characteristics to which they wish to gain exposure.

Equally, ETFs could offer a straightforward, cost-effective and potentially tax-efficient option for some investors:[7]

- Easy access to a highly regulated market
- No need to deal with an additional restricted currency
- No need to onboard tax advisers and local brokers
- Potential tax benefits via the reduced withholding tax (WHT) rate to Irish-domiciled ETFs (10% WHT vs 20% standard rate). In addition, Irish-domiciled ETFs are subject to zero capital gains tax (CGT), compared with other domiciles, which pay rates of 10-30% CGT[8]

Regardless of whether investors choose to the access the market directly or via ETFs, the inclusion of IGBs in major fixed income indices signifies international recognition of India's growing significance as a leading global economy, and will likely result in more foreign investments in the country's capital markets.

And while any investment in emerging market debt entails some risk – especially when the macro backdrop is so fragile – we see the idiosyncratic allure of IGBs, detailed above, as highlighting the importance of taking a selective approach to the asset class.

4. Source: Goldman Sachs, Global Market Daily report, 16 August 2022.
5. Source: https://www.bloomberg.com/company/press/bloomberg-announces-india-far-bonds-inclusion-in-the-bloomberg-emerging-market-em-local-currency-government-index/
6. Source: Morgan Stanley and JPM estimates, August 2022.
7. Tax treatment is dependent on individual circumstances and is subject to change.
8. Tax treatment is dependent on individual circumstances and is subject to change.

Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

LGIM Global

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The LGIM Stewardship Team acts on behalf of all such locally authorized entities

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