

Fixed-Income Trends and How Morningstar Can Help Investors



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June 25, 2019

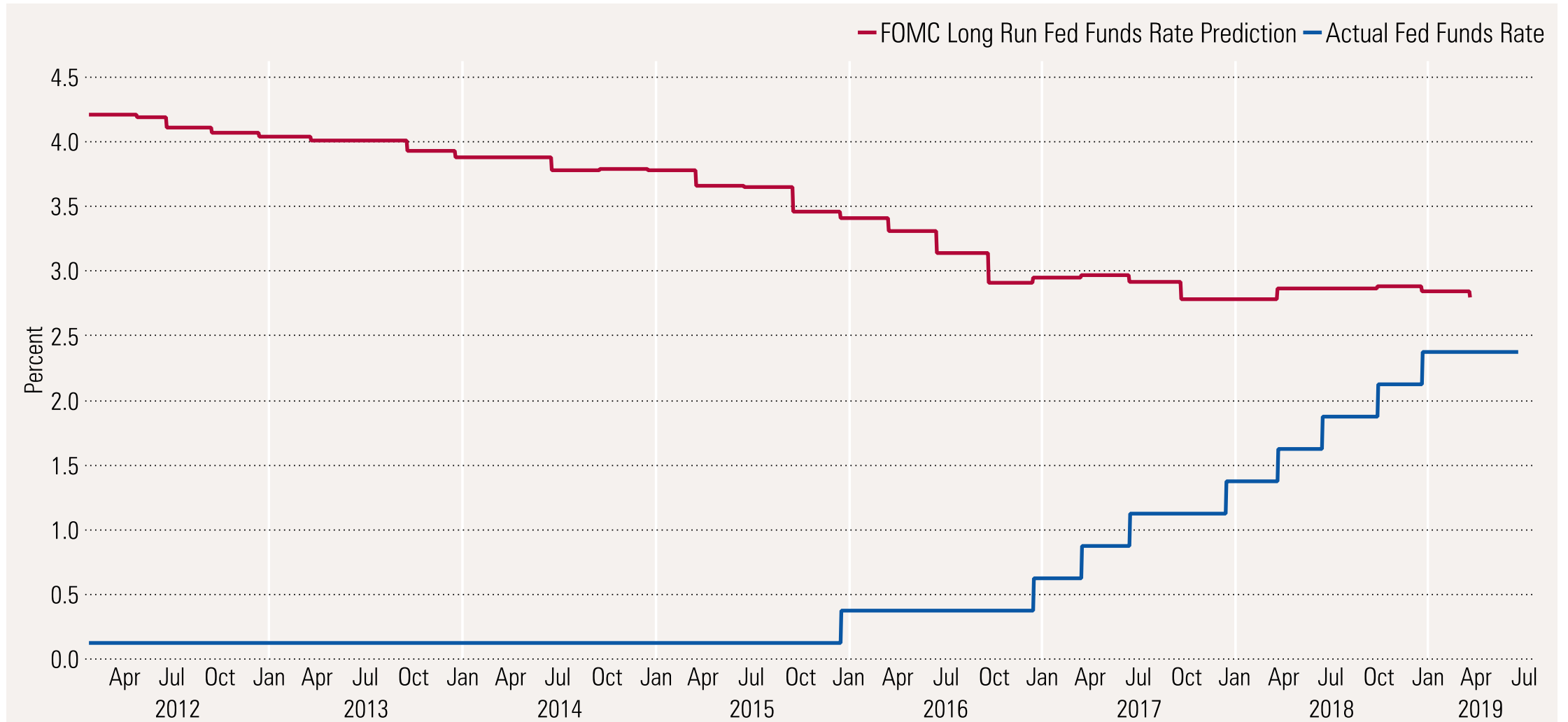
POLL: Do you think the Federal Reserve will cut interest rates in 2019?

Yes

No

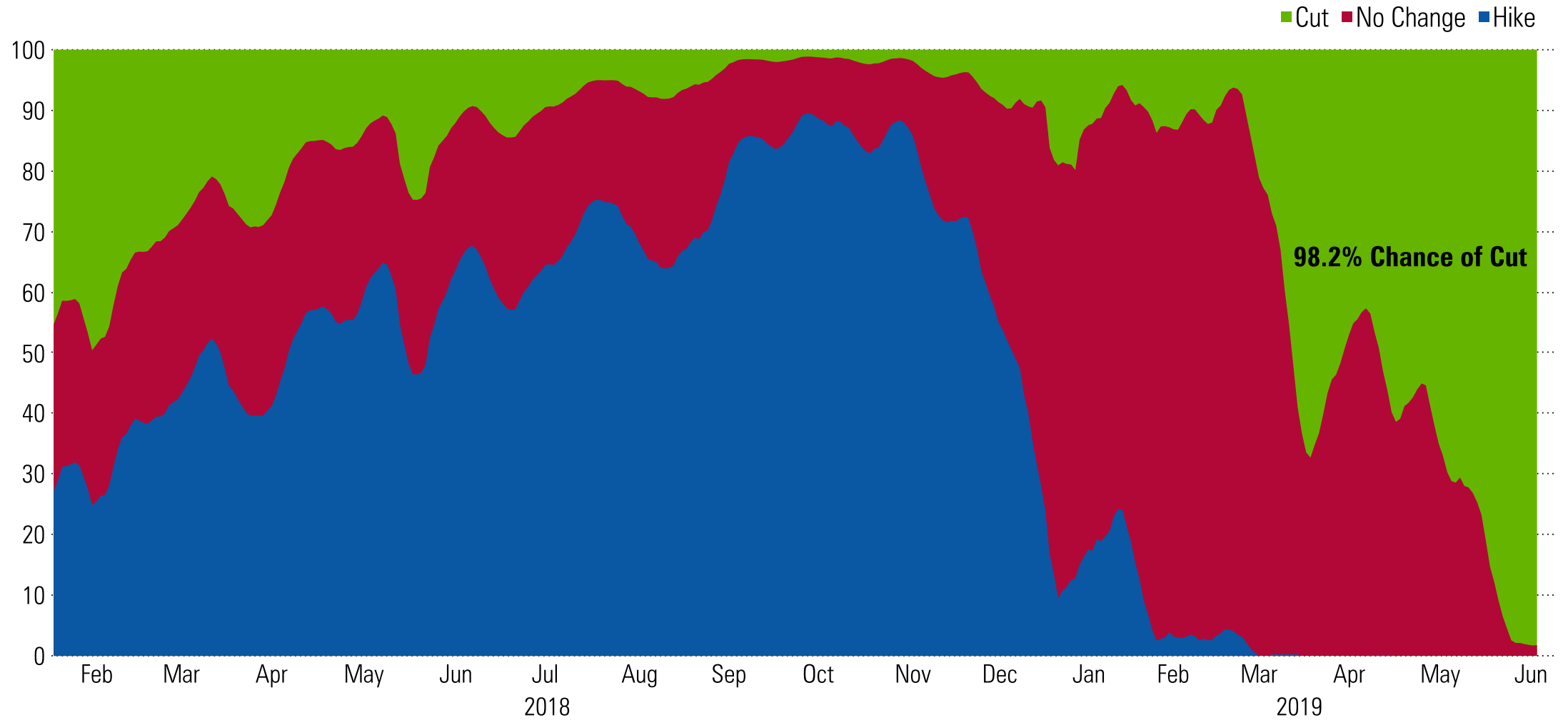
Poll Results

Federal Reserve Long-Term Fed Funds Rate Prediction Has Been Falling



Source: Federal Reserve, Data current as of 6/19/2019

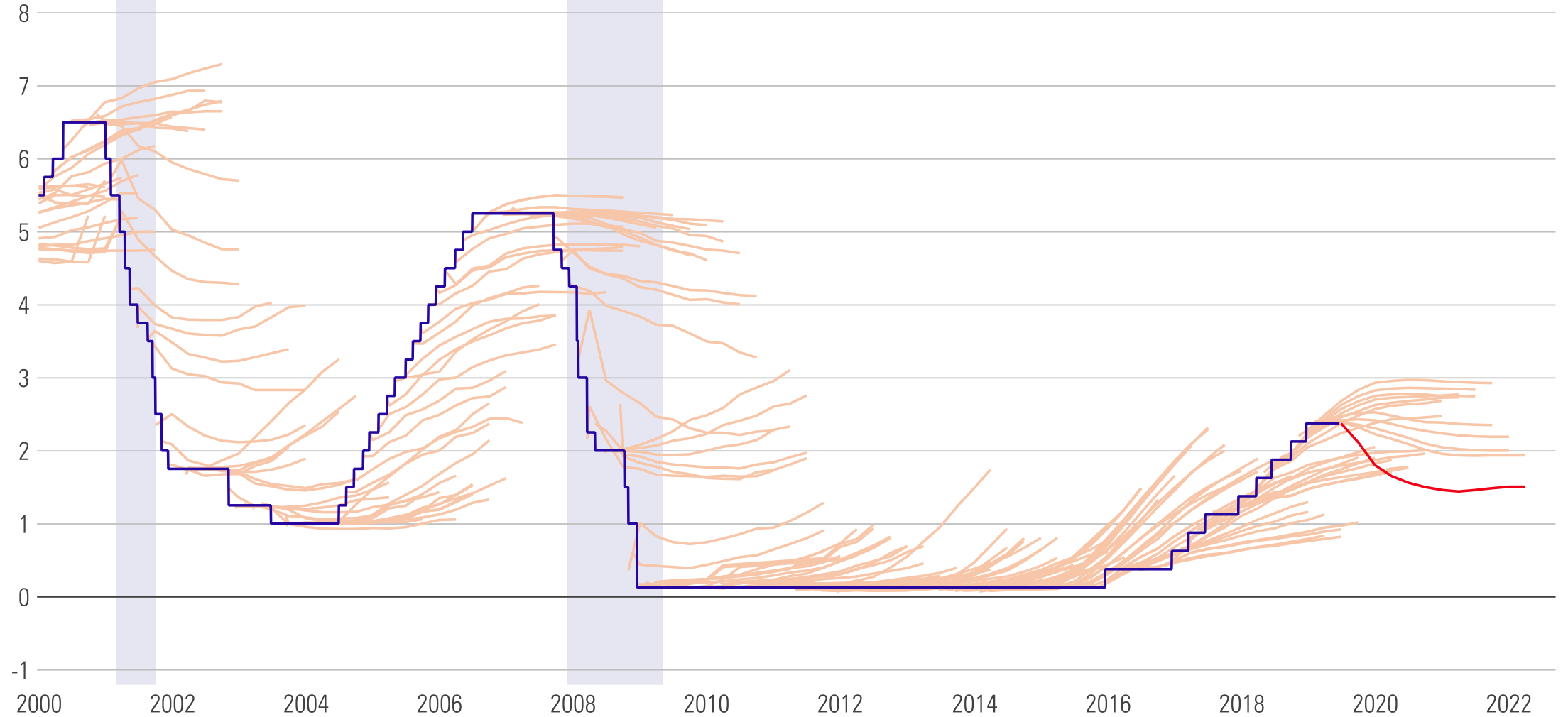
Probability of a Federal Funds Rate Changes by the End of 2019



Source: CME Group, Macrobond, Data current as of 6/19/2019

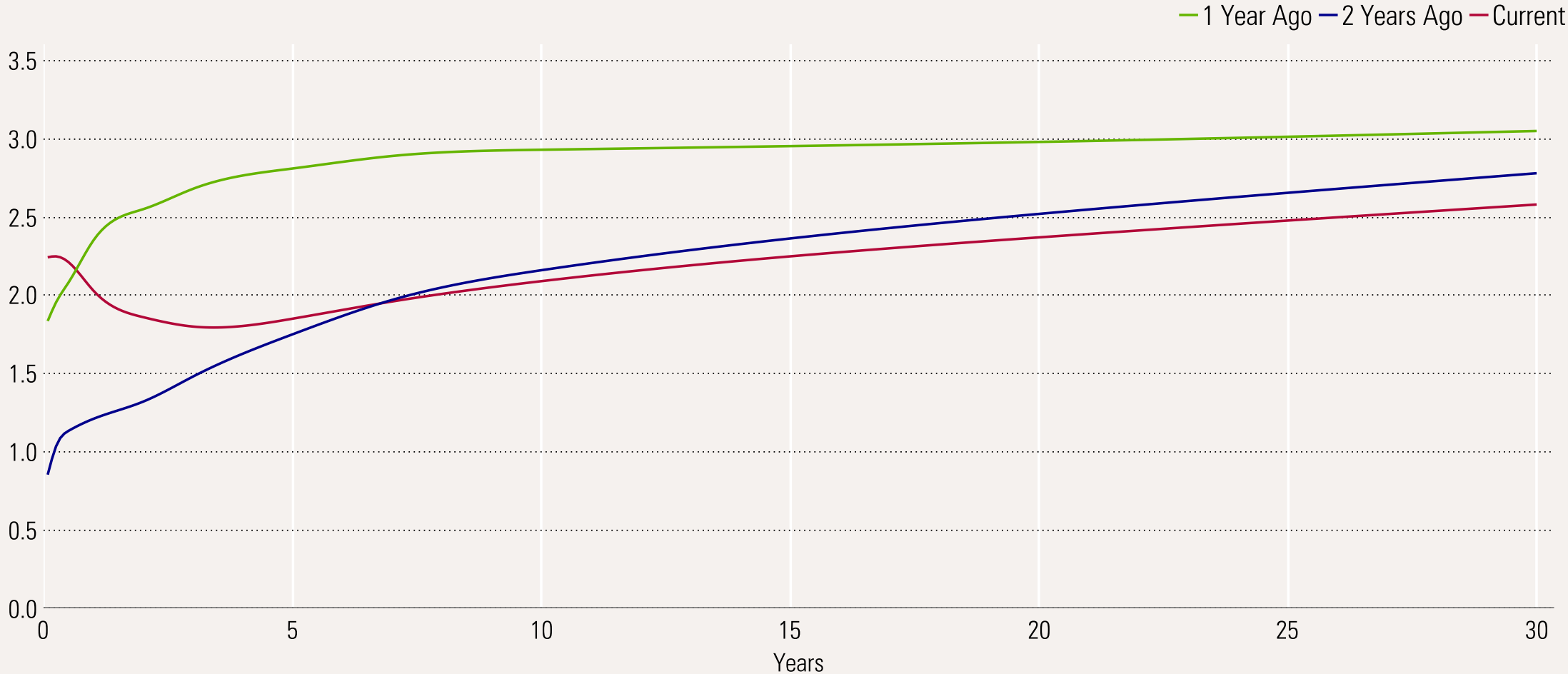
Fed Funds Futures Are Directionally Correct But Have Terrible Timing

Fed Funds: Futures vs Actual



Yields Are Falling Across the Entire Yield Curve

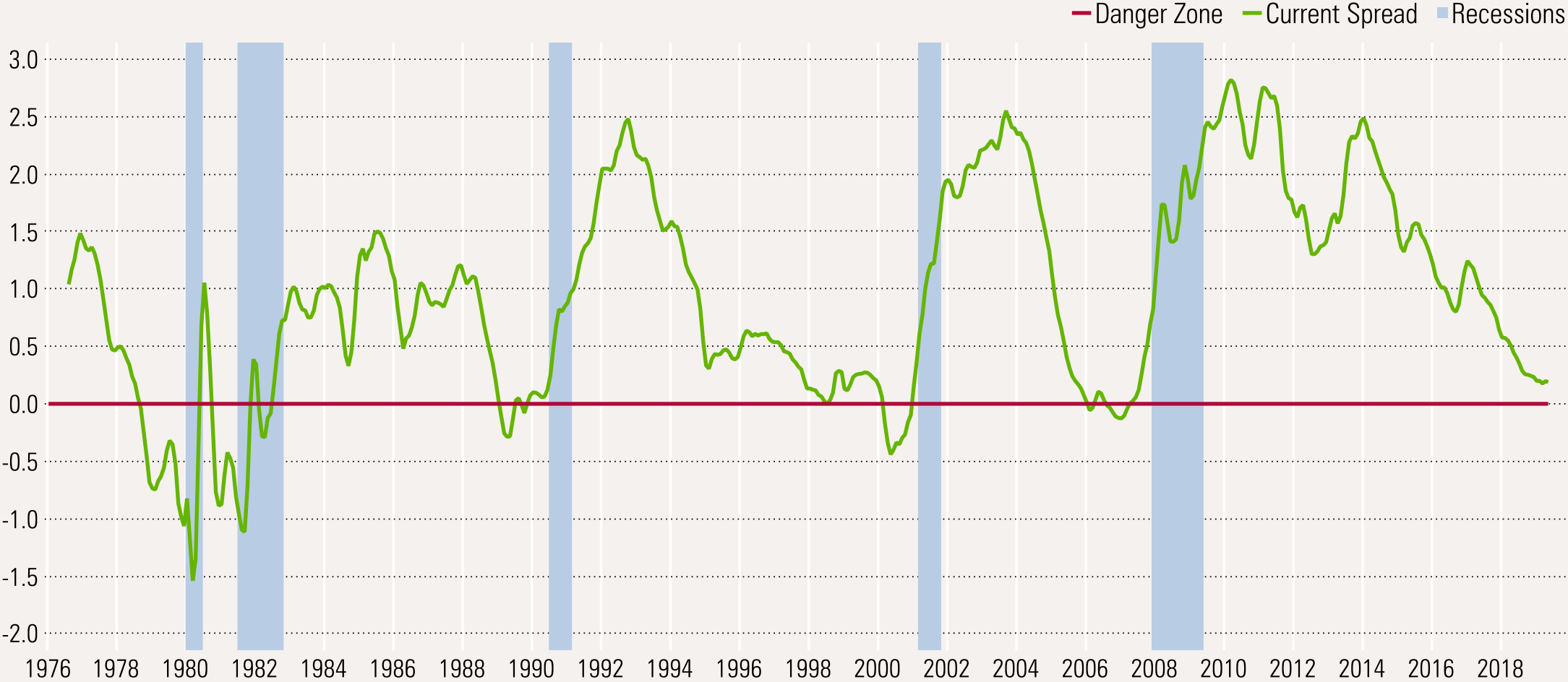
U.S. Treasury Yield Curve



Source: Federal Reserve, Data current as of 6/17/2019

The Yield Curve Spread is Very Close to Inverted

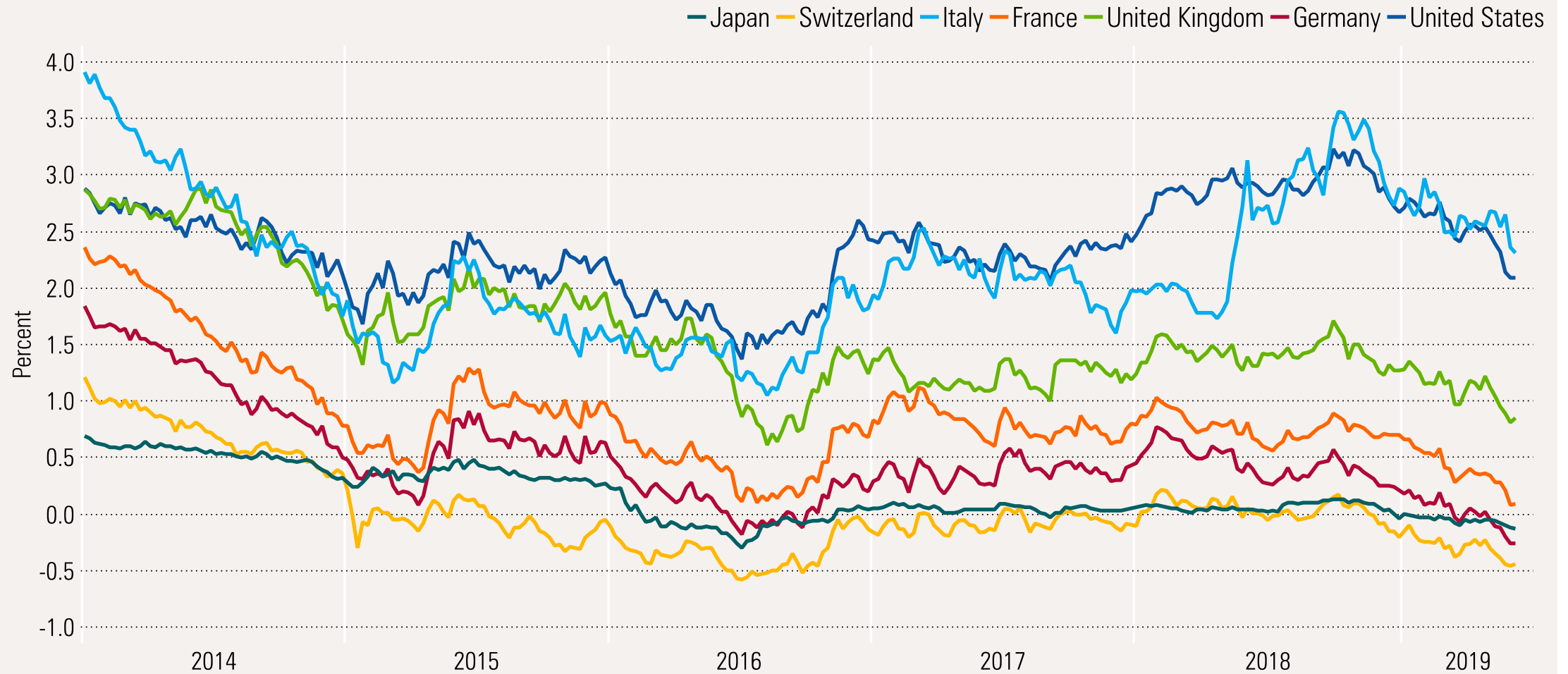
10 Year Treasury Yield - 2 Year Treasury Yield



Source: NBER (National Bureau of Economic Research), Macrobond Financial AB, Data current as of 6/19/2019

Negative Yields are back in Germany, Japan, and Switzerland

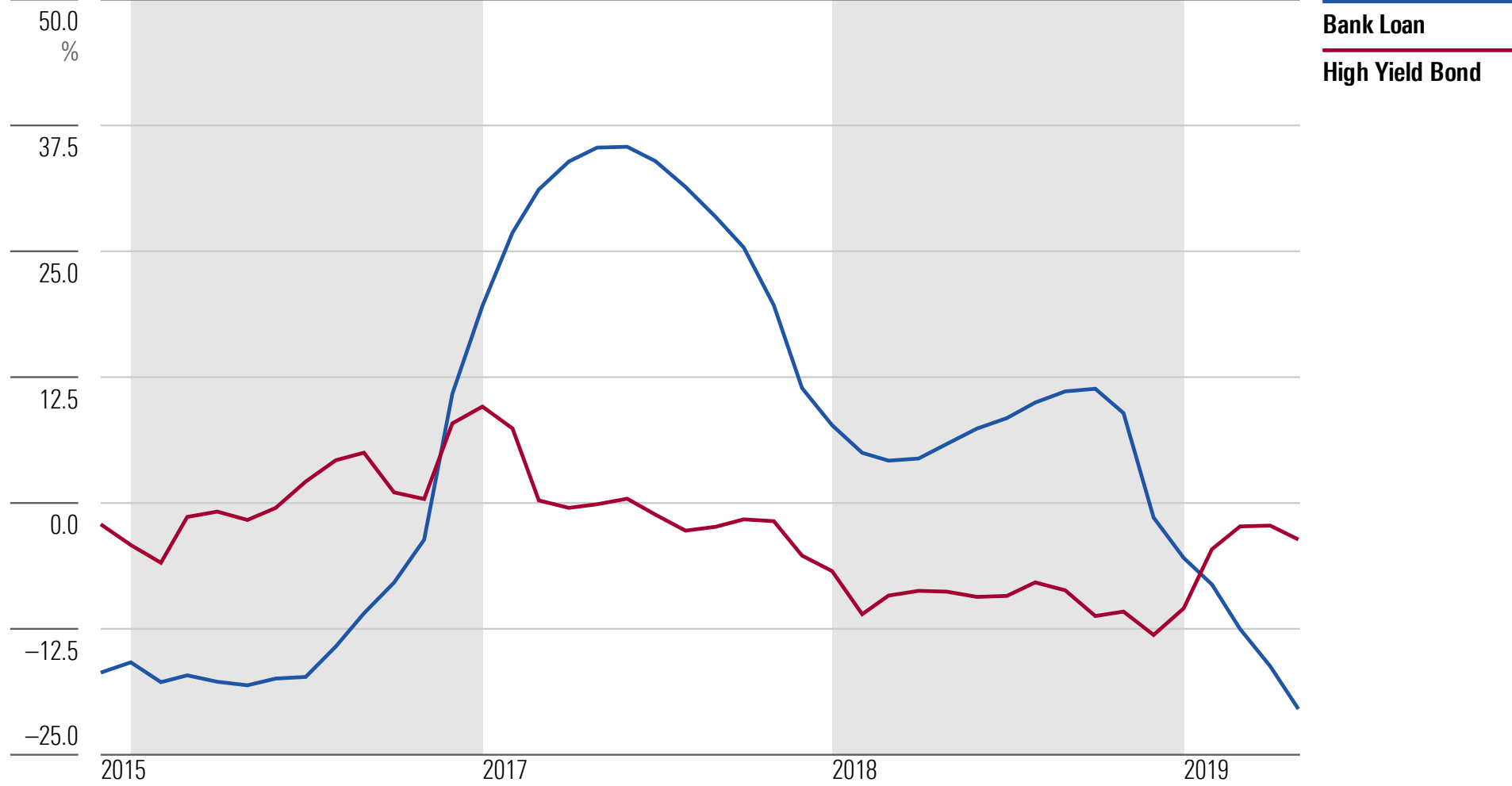
World 10-Year Government Bond Yields



Source: Macrobond Financial AB, Data current as of 6/20/2019

High Yield Credit Is In Outflows

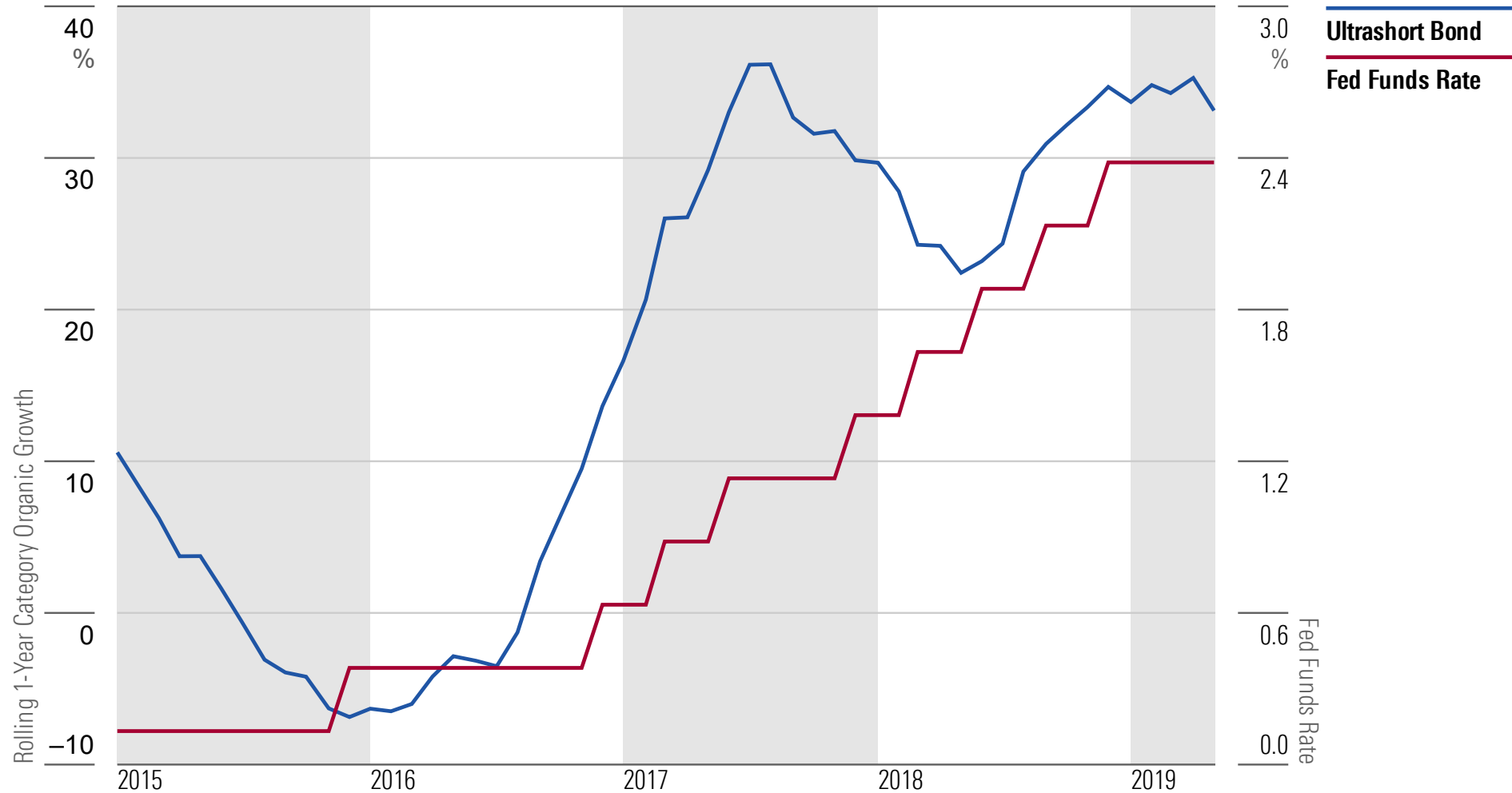
Rolling 1 Year Organic Growth



Source: Morningstar Direct. Data as of May 31, 2019.

In Response to Higher Interest Rates Money Is Flowing Into Short-Term Bonds

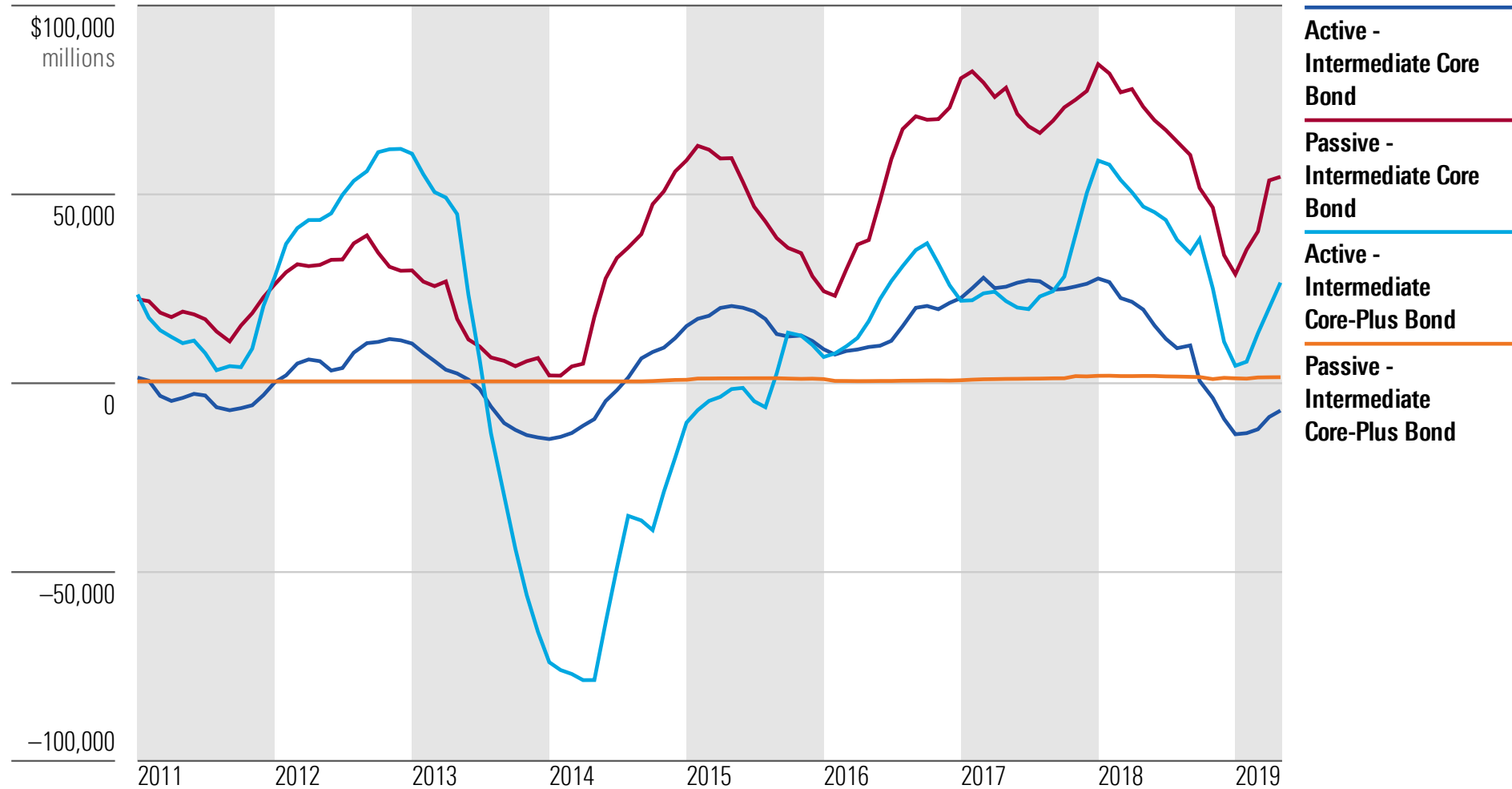
Ultrashort Bond 1-Year Organic Growth Versus Fed Funds Rate



Source: Morningstar Direct. Data as of May 31, 2019.

Investors Prefer Passively Managed Lower Credit Risk Funds

Rolling 12-Month Flows



Source: Morningstar Direct. Data as of May 31, 2019.

Financial professionals need to work with **7-10 vendors** to fulfill their data requirements and spend up to **15 hours a week** piecing all this information together.

Holdings

- Morningstar Collection
- N-Port

Descriptive

- ICE Data Services
- Morningstar Collection
- N-Port

Credit Ratings

- DBRS
- Moody's
- S&P
- Morningstar Extrapolated Ratings

Prices/Analytics

- ICE Data Services
- Morningstar Calculated
- BondEdge
- SVC

Transforming fixed-income by investing in world-class proprietary and third-party data sources and capabilities.

Morningstar Fixed-Income Data and Analytics

1. Consistency and comparability

Apples-to-apples comparisons increase probability of meeting financial goals.

2. Global managed fund universe

Allows teams across borders and investment types to work under the same platform.

3. Holdings-based full-look through analytics

More in-depth and accurate analysis leads to better decisions.

4. Design and ease-of-use

Thoughtfully delivers actionable data and insights.

5. Centralized solutions from one provider

Increases efficiency and reduces costs.

Morningstar fixed-income data and analytics create a “yard stick” where one does not exist.

71 total data points

45 new

30 enhanced

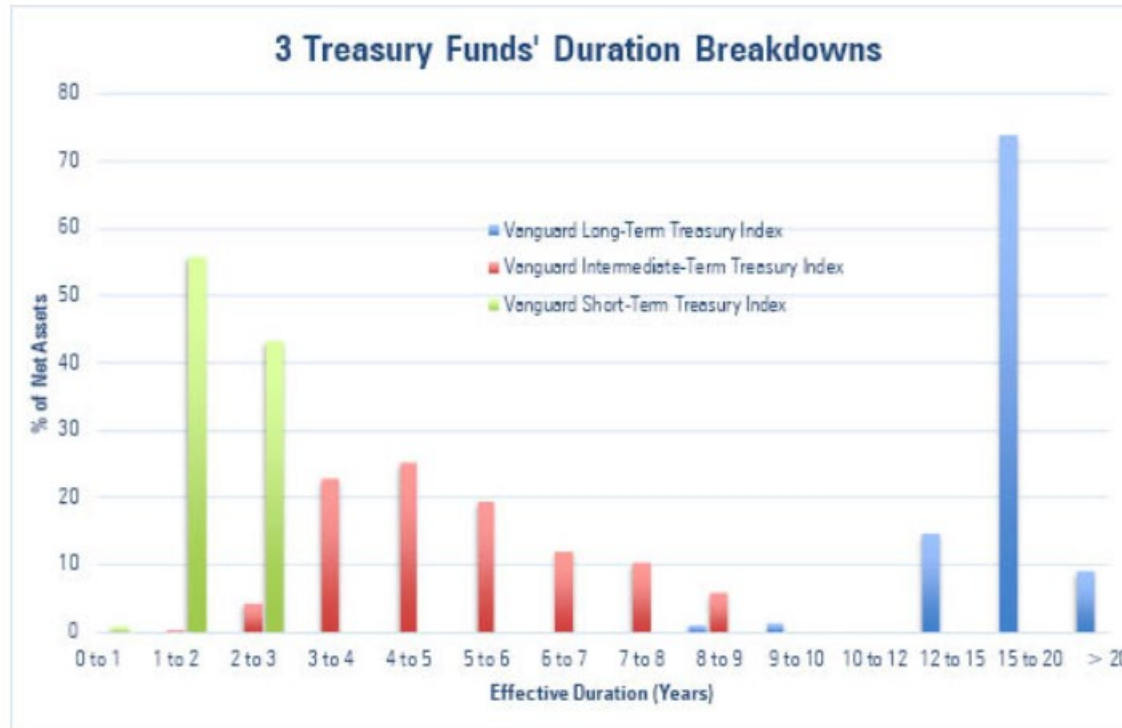
Exposure Analytics
Interest Rate Risk
Credit Risk Analytics
Return Analytics

Sub-asset class specific content

 Securitization Collateral Type	Breakdown	ABS/CMO/MBS
 Securitized Mortgage Type	Breakdown	CMO/MBS
 Security Rank	Breakdown	Corp.
 Security Type	Breakdown	U.S. Muni
 Sinking Fund Type	Breakdown	U.S. Muni
 State Code	Breakdown	U.S. Muni
 State Taxation	Breakdown	U.S. Muni
 Structured/Securitized Type	Breakdown	ABS/CMO/MBS
 U. S. Federal Taxation	Breakdown	U.S. Muni
 Use of Proceeds	Breakdown	U.S. Muni

Morningstar illuminates the most challenging concepts of fixed-income.

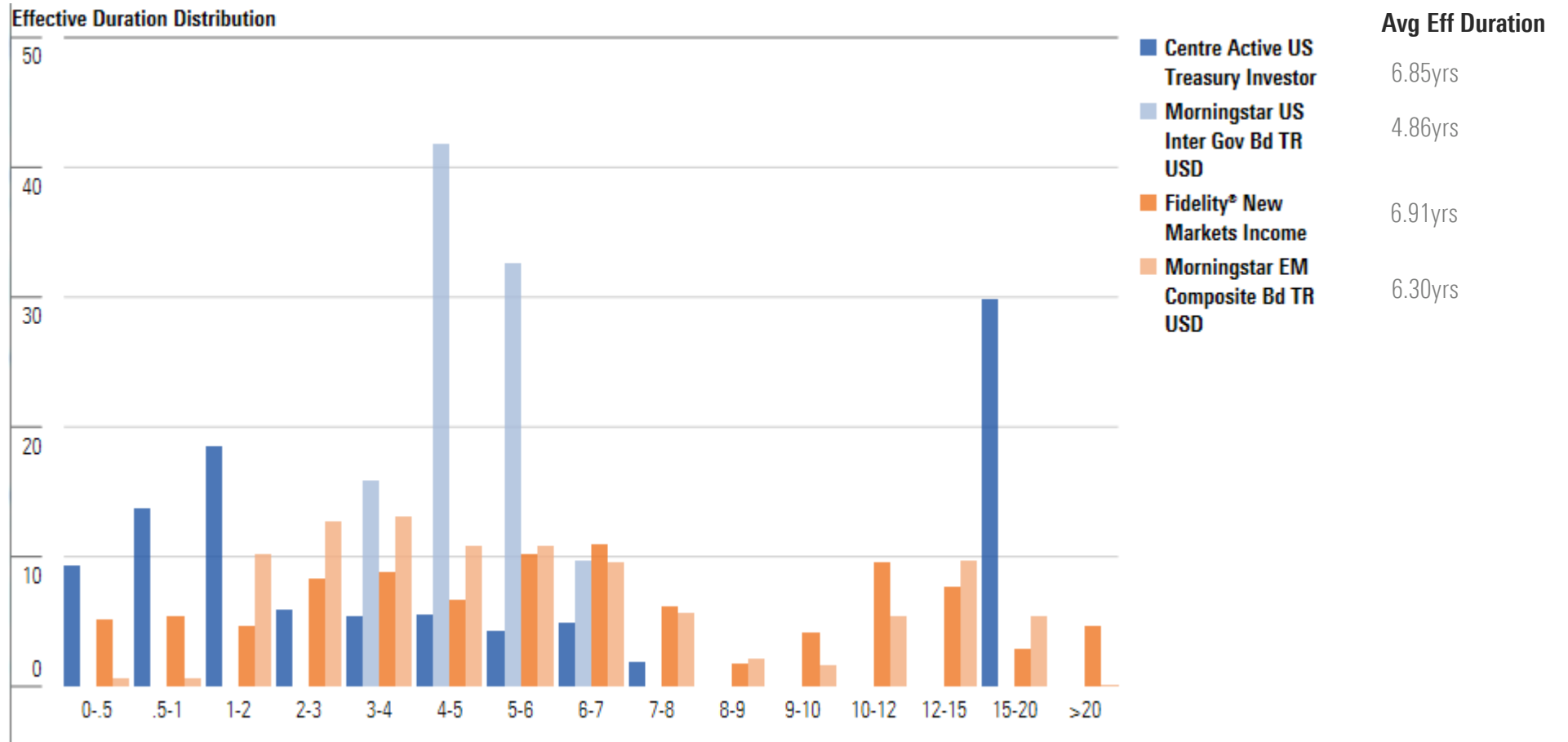
New breakdowns for multi-fund analysis



Source: Morningstar Direct. Data as of April 30, 2019
<https://www.morningstar.com/articles/932740/how-to-become-a-duration-detective.html>

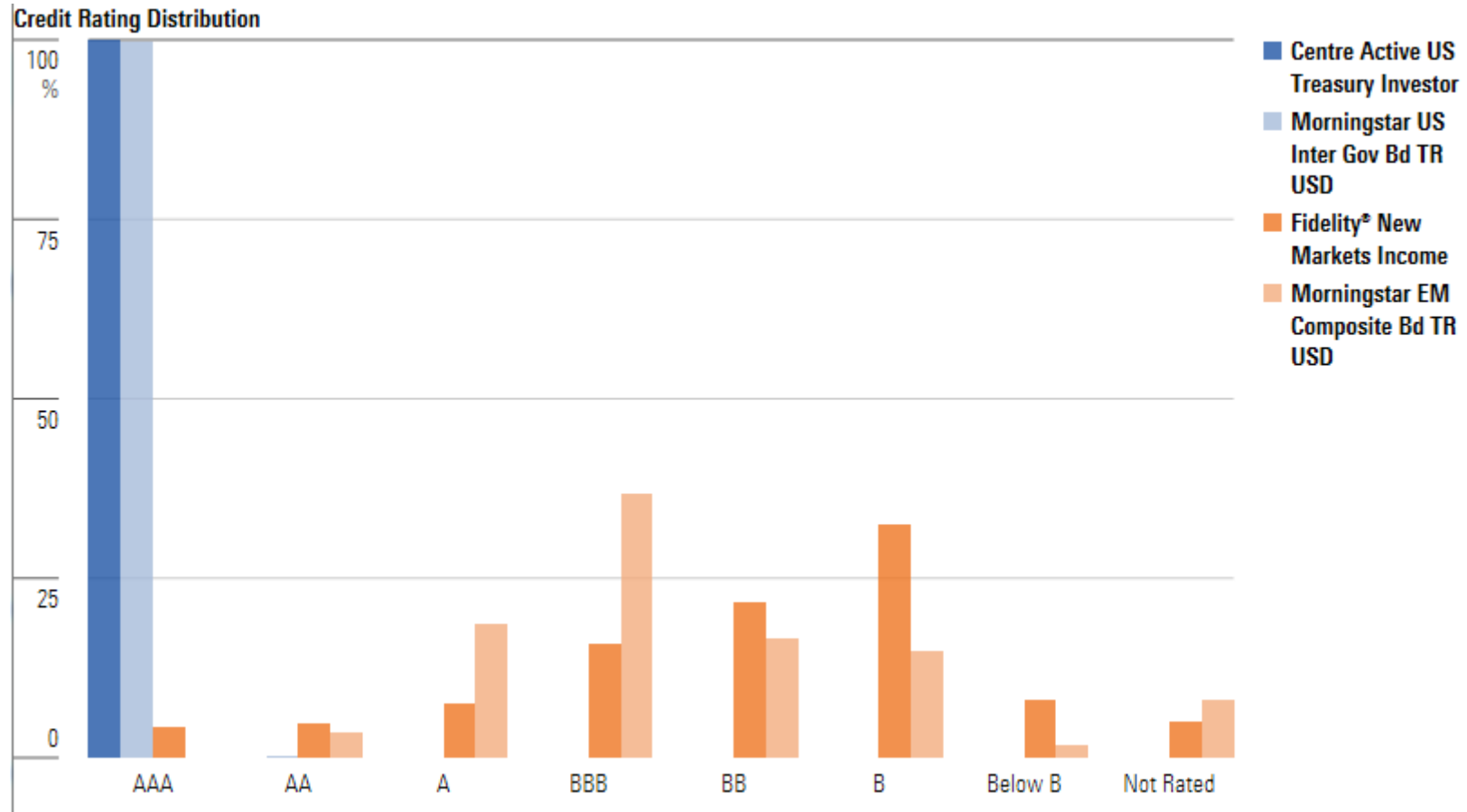
Providing more depth to your analysis

Holistic
interest rate
risk analysis



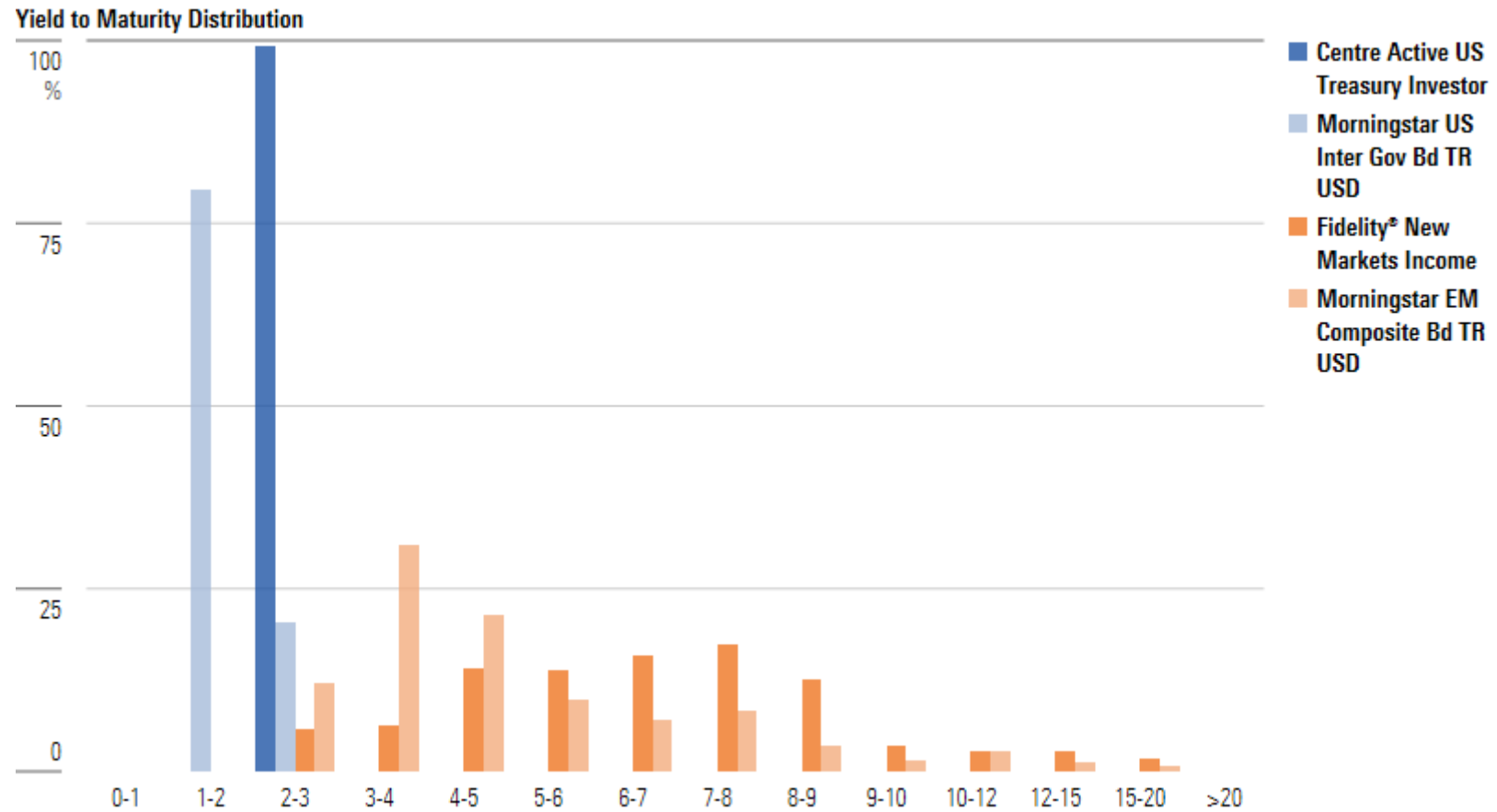
New analytics and capabilities drive insight

Ratings based credit metrics



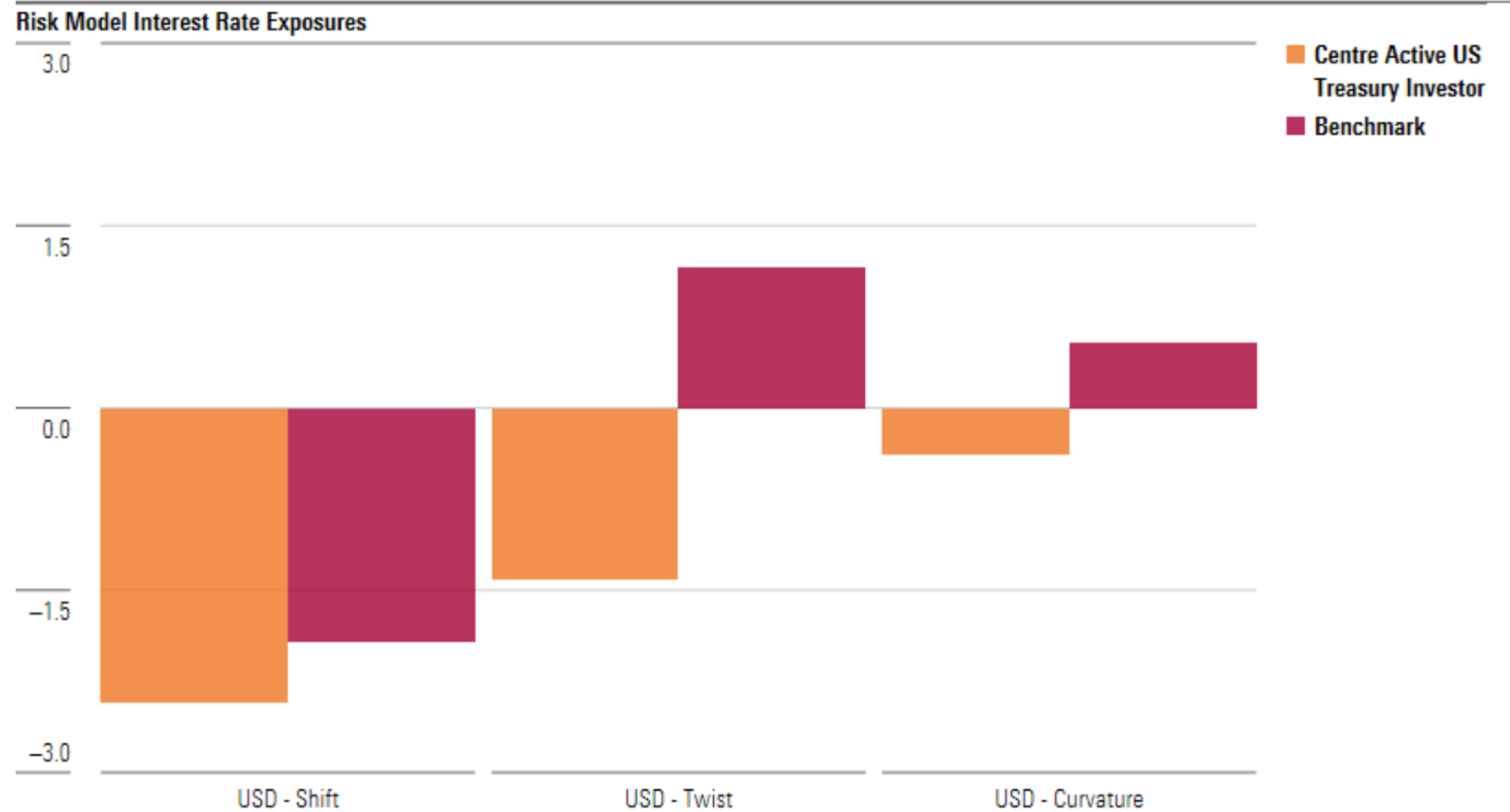
New analytics and capabilities drive insight

More in
depth return
analysis



New analytics and capabilities drive insight

Holistic
interest rate
risk analysis



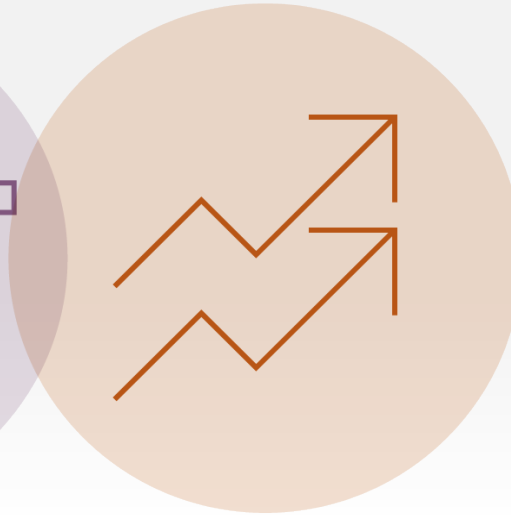
New analytics and capabilities drive insight



**Research, Data
and Analytics**

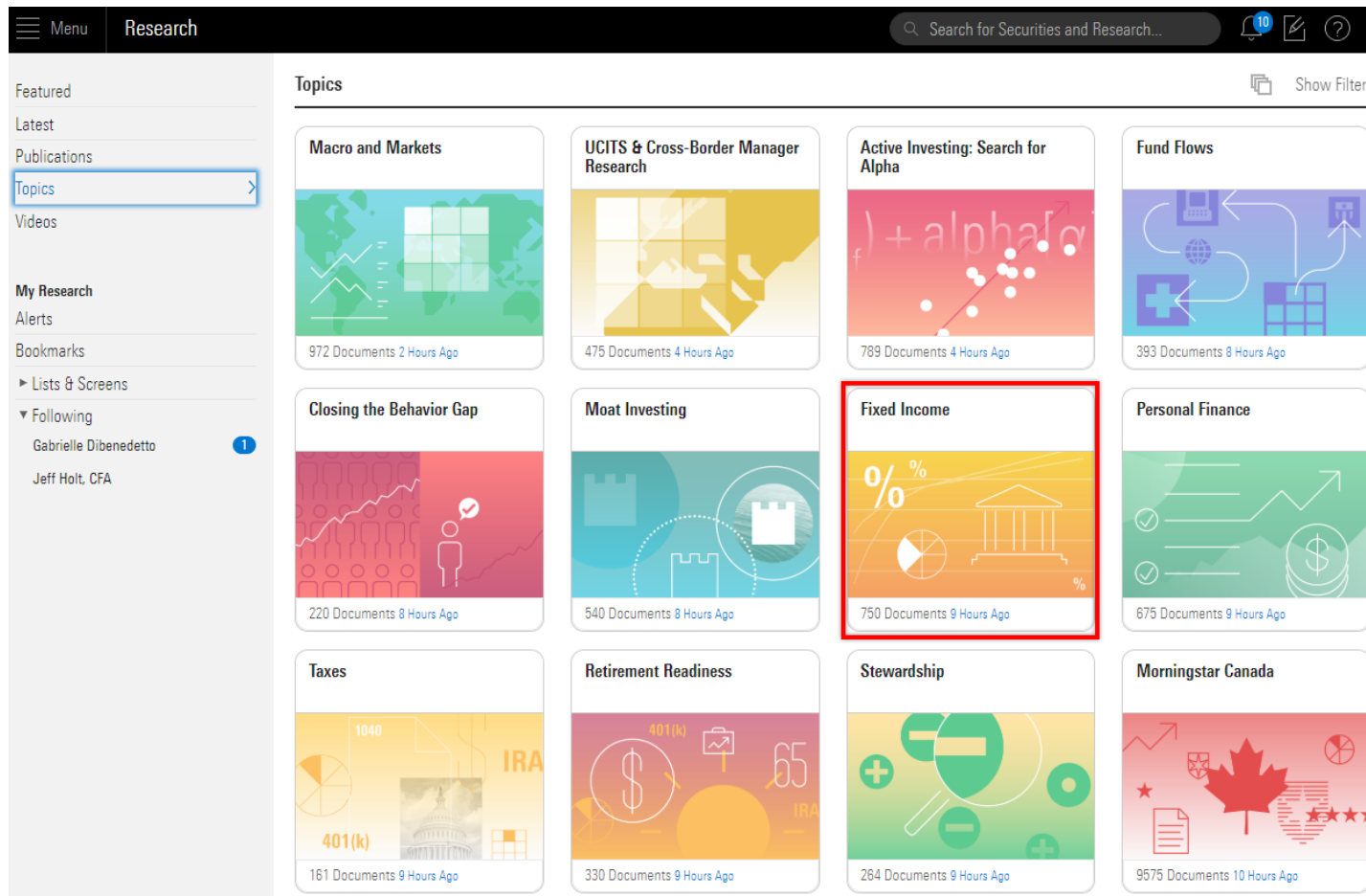


**Risk
Modeling**



Indexes

Morningstar's Fixed-Income solutions deliver actionable insights.



Morningstar Research Portal (Direct & Office Cloud)

Questions?