

**Press Release London, Nice, Paris, May 16, 2019**

**Factor investing in fixed-income: EDHEC-Risk Institute paper shows that it is possible to build duration-timing strategies that are economically superior to bearing unconditional duration risk**

The abundance of theoretical and empirical research on factor investing in the equity universe contrasts strongly with the relative scarcity of research on the existence and exploitability of risk premia in bond markets. Recently, some managers have been focusing on risk premia in fixed income, but the academic knowledge remains limited and it seems that it is not possible to apply the same factors that have been identified for equities in a straightforward way.

It is within this context that **EDHEC-Risk Institute has launched a dedicated research programme that aims to broaden the concepts of factor-investing in bond markets** by i) analysing the risk factors that drive these universes, ii) finding whether they attract compensation or not, and iii) more generally, examining bond return predictability.

A new study produced as part of the Amundi research chair on “ETF, Indexing and Smart Beta Investment Strategies” **focuses on the two factors that explain a large fraction of differences over time in bond returns, namely the “level” or “slope” of the yield curve**.

Using not only yield curve data but also a comprehensive database of individual bond returns in the US over the 1973-2018 sample period, the publication “*Factor Investing in Sovereign Bond Markets – A Time-Series Perspective*”, **explores whether it is possible to identify strategies, which, after transaction costs, generate excess returns by taking relevant signal-based level or slope bets when investing in a real US coupon bonds universe**.

The authors of the study, Jean-Michel Maeso, Lionel Martellini and Riccardo Rebonato, draw three major conclusions from their work:

* They confirm the ﬁnding that long-term bonds do appear to oﬀer a higher unconditional excess return over short-term rates, an excess return that is also known as the bond risk premium;
* They find that a conditional version of a carry strategy based upon a time-varying exposure to the level of the yield curve can generate up to 200 basis points of excess performance;
* They also find that a conditional version of a flattener strategy based upon a time-varying exposure to the slope of the yield curve can generate economically-significant additional performance, even though such excess performance is limited in implementation by the presence of leverage constraints.

Commenting on this research, Riccardo Rebonato, Professor of Finance at EDHEC-Risk Institute, EDHEC Business School, said “Equity markets are notoriously difficult to time, but, as the factor literature has shown us for over 20 years, lend themselves to relative positioning. Treasury markets are, in a sense, their mirror image: relative trading is possible, but hard. However, evidence is mounting that new-generation factors can allow the timing of duration and slope exposure. This is an exciting new field, in which EDHEC-Risk Institute ambitions to position itself as a thought leader”.

Bruno Taillardat, Head of Smart Beta & Factor Investing at Amundi, added his thoughts: “Demand from investors to apply factors to the fixed income asset class is growing rapidly, opening a new phase for the industry. Since factor-based solutions are not yet as developed on this side as they are on equities, we are delighted to support the EDHEC-Risk Institute with this new academic research, to drive investors’ education, better understand factor investing in fixed income and build the right investment solutions.”

In two companion papers, to be released in June, the same authors will present a related analysis of the two most popular cross-sectional factors, namely “value” and “momentum”, using economically justified proxies for these attributes.

A copy of “*Factor Investing in Sovereign Bond Markets – A Time-Series Perspective*” can be downloaded via the following link:

[Factor Investing in Sovereign Bond Markets - A Time-Series Perspective](http://docs.edhec-risk.com/mrk/000000/Publication/ERI_Publication_FactorInvesting_in_Sovereign_Bond_Markets_Online.pdf)

You can access the editorial – [EDHEC-Risk on Factor Investing in Sovereign Bond Universes](https://risk.edhec.edu/edito-edhec-risk-factor-investing-sovereign-bond-universes) – published in the April edition of EDHEC-Risk Institute quarterly newsletter.

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**About EDHEC-Risk Institute**

**Academic Roots & Practitioner Reach**

For more than 15 years, EDHEC Business School has been pursuing an ambitious policy in terms of practically relevant academic research. This policy, known as “Make an Impact”, aims to make EDHEC an academic institution of reference for the industry in a small number of areas in which the school has reached critical mass in terms of expertise and research results. Among these areas, investment management has occupied a privileged position, leading to the creation in 2001 of EDHEC-Risk Institute, which has developed an ambitious portfolio of research and educational initiatives in the domain of investment solutions for institutional and individual investors.

This Institute boasts a team of permanent professors, engineers and support staff, and counts a large number of affiliate professors and research associates from the financial industry among its ranks. EDHEC-Risk Institute is located at campuses in the City of London (United Kingdom) and Nice, (France). The philosophy of the Institute is to validate its work by publication in international academic journals, as well as to make it available to the sector through its position papers, published studies and global conferences.

To ensure the distribution of its research to the industry, EDHEC-Risk also provides professionals with access to its website, <https://risk.edhec.edu>, devoted to asset and risk management research for the industry, with a focus on investment solutions. Additionally, its quarterly newsletter is distributed to over 150,000 readers.

In addition to the EDHEC Alternative Indexes, which are used as performance benchmarks for risk analysis by investors in hedge funds, and the EDHEC-IEIF Monthly Commercial Property index, which tracks the performance of the French commercial property market through SCPIs, EDHEC-Risk has recently launched a series of new initiatives.

* The [EDHEC-Princeton Retirement Goal-Based Investing Index Series](https://risk.edhec.edu/indices-investment-solutions#tab_372), launched in May 2018, which represent asset allocation benchmarks for innovative mass-customised target date solutions for individuals preparing for retirement;
* The [EDHEC Bond Risk Premium Monitor](https://risk.edhec.edu/bond-risk-premium-monitor), the purpose of which is to offer to investment and academic communities a tool to quantify and analyse the risk premium associated with Government bonds;
* The [EDHEC-Risk Investment Solutions (Serious) Game](https://risk.edhec.edu/edhec-risk-investment-solutions), which is meant to facilitate engagement with graduate students or investment professionals enrolled on one of EDHEC-Risk’s various campus-based, blended or fully-digital educational programmes.

EDHEC-Risk Institute also has highly significant executive education activities for professionals, in partnership with prestigious academic partners.

In 2012, EDHEC-Risk Institute signed two strategic partnership agreements. The first was with the Operations Research and Financial Engineering department of Princeton University to set up a joint research programme in the area of investment solutions for institutions and individuals. The second was with Yale School of Management to set up joint certified executive training courses in North America and Europe in the area of risk and investment management.

As part of its policy of transferring know-how to the industry, in 2013 EDHEC-Risk Institute also set up ERI Scientific Beta, which is an original initiative that aims to favour the adoption of the latest advances in smart beta design and implementation by the whole investment industry. Its academic origin provides the foundation for its strategy: offer, in the best economic conditions possible, the smart beta solutions that are most proven scientifically with full transparency in both the methods and the associated risks.

EDHEC-Risk Institute also contributed to the 2016 launch of EDHEC Infrastructure Institute (EDHEC*infra*), a spin-off dedicated to benchmarking private infrastructure investments. EDHEC*infra* was created to address the profound knowledge gap faced by infrastructure investors by collecting and standardising private investment and cash flow data and running state-of-the-art asset pricing and risk models to create the performance benchmarks that are needed for asset allocation, prudential regulation and the design of infrastructure investment solutions.

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**About Amundi ETF, Indexing and Smart Beta**

With more than €112 billion1 in assets under management, Amundi ETF, Indexing and Smart Beta is one of Amundi’s strategic business areas and is a key growth driver for the Group.

Amundi ETF, Indexing and Smart Beta business line provides investors – whether institutionals or distributors – with robust, innovative, and cost-efficient solutions, leveraging Amundi Group’s scale and large resources. The platform also offers investors fully customized solutions (ESG, Low Carbon, specific exclusions, risk constraints, etc.).

With over 30 years of benchmark construction and replication expertise, Amundi is a trusted name in ETF & Index management among the world’s largest institutions. The team is also recognized for its ability to develop Smart Beta & Factor Investing solutions, with more than 10-year track-record.

1- All figures and data are provided by Amundi ETF, Indexing & Smart Beta at end March 2019

[www.amundi.com](http://www.amundi.com)