

# Floating Rate Notes can help prepare for a hike in interest rates

**In a fast changing environment, these securities are an increasingly attractive asset class, as they allow investors to reduce the sensitivity to interest rates fluctuations and to capture some potential yield.**

Over the last 30 years, interest rates have been decreasing. This cycle now seems to have come to an end, as shown by the recent hike following the US presidential elections. What is at stake for investors now is the need to find solutions that will help generate yield and take advantage of this upcoming hike in rates without increasing risk.

## Floating Rate Notes in a nutshell

Floating Rate Notes are well positioned to tackle the challenge: not only their low duration is shielding investors from the negative price impact of increasing rates, but their floating coupon is allowing them to offer a potential increasing yield.

Those products already offer attractive opportunities in the US environment, where the Federal Reserve has already started a fed funds tightening cycle, but also in Europe

### CHARACTERISTICS



where rates might be close to bottoming out. A Floating Rate Note is a debt instrument with a variable interest rate: its coupon is composed of a reference rate and a fixed

spread. As the reference rate increases or decreases so does the coupon, which is adjusted on a regular basis (from daily to annually, depending on the emission). ■

## The interest of USD-denominated FRNs

In a fast changing environment, FRNs are an increasingly attractive asset class, as they allow investors - in one single transaction - to hedge their portfolios, and to generate potential returns, while remaining in the Investment Grade universe<sup>(1)</sup>. FRNs are very well-suited to today's economic landscape, as they provide the opportunity to make the most of the recent increase in US rates.

While US rates have started rising in the wake of Donald Trump's election, global bond yields

remain fairly low. In this perspective, the Markit iBoxx USD Liquid FRN Investment Grade Corporates 100 index<sup>(2)</sup> (which provides an exposure to the most liquid US floating rate notes) can be a fitting option: with almost zero sensitivity to interest rates, it has risen by 0.75% since the election of Donald Trump, while a fixed rate corporate index with equivalent maturity has gone down by a little over 0,40%. At the end of January 2017, it boasted a USD net return of 2.60%<sup>(3)</sup>.

Exposure to this index via an ETF is an interesting solution for investors. Amundi ETF's range allows investors to access the potential yield of USD-denominated Floating Rate Notes at competitive pricing. Exposure to USD denominated FRNs means exposure to exchange rates. Amundi also offers a USD FRN ETF that includes EUR/USD hedging. As the US Dollar has appreciated by 21% vs. the Euro over the last 3 years, this helps minimize the exchange rate impact<sup>(3)</sup>.

(1) The higher the potential yield, the higher the potential capital lost

(2) For further information on the index methodology please refer to [www.markit.com](http://www.markit.com)

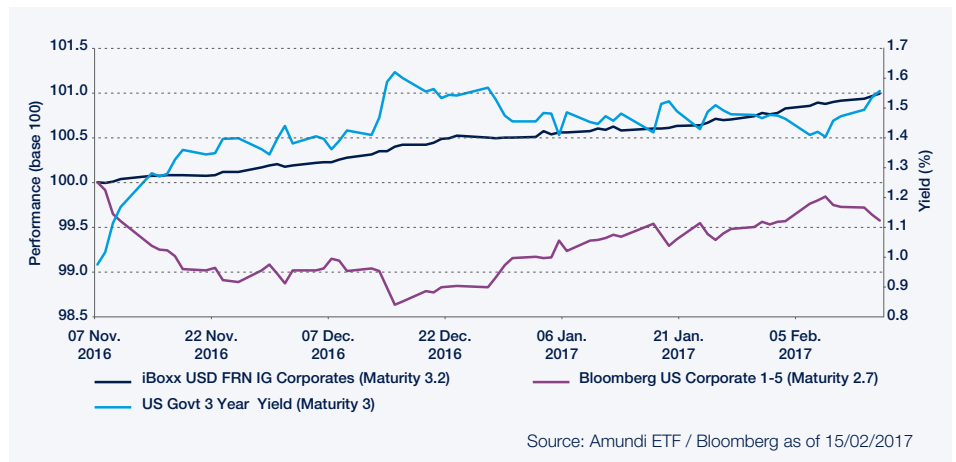
(3) Source: Amundi ETF/Bloomberg as of 31/01/2017

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At the end of January 2017, this ETF provided a 1% net return in euros, for a 3.1 year maturity. With identical maturity and rating, European credit provides a 0.15% return, and can only reach the 1.1% threshold after a eight year maturity period, which increases sensitivity and, consequently, risk<sup>(3)</sup>. ■

(3) Source: Amundi ETF/Bloomberg as of 31/01/2017

Performance of fixed and floating rate indices versus US government yield



Past performance is no indication of current or future performance, and the performance data do not take account of the commissions and costs incurred on the issue and redemption of units.

## An easy access to FRNs via ETFs

Like other fixed income products, FRNs are more complicated to trade than equities. Amundi ETF's FRN product range - the first of its kind in Europe - allows exposure to a basket of FRNs in one only transaction. While

US investors have been able to get exposed to this kind of product through ETFs since 2011, European investors have the opportunity to benefit from the Amundi ETF's FRN product range since 2015. This range has

already collected 2 billion euros<sup>(4)</sup> since its launch, confirming the appetite for those instruments in today's rate environment. ■

(4) Source: Amundi ETF/Bloomberg as of 15/02/2017

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