

UK RPI Breakeven Inflation Swap Indices

Parameta Solutions UK RPI Breakeven Inflation Swap Indices (UKR BISM) aim to provide market participants with a family of indices tracking the performance of a monthly rolling strategy investing in inflation swaps of different tenors.

Background

Inflation swaps are an important tool for fixed income market participants. According to a recent Bank of England blog post inflation swaps are,

“... like the crystal ball of inflation expectations, allowing traders to hedge against inflation risk and giving us a peek into the minds of market participants.”

Most inflation swap contracts take the form of zero coupon swaps (also known as breakeven inflation swaps). These are used by a variety of different financial institutions, including pension funds and liability driven investors, hedge funds and insurance companies. Their key feature is that they allow users to gain exposure to changes in the expected future inflation rate.

Index description

The Parameta Solutions UK RPI Breakeven Inflation Swap (UKR BISM) indices aim to provide market participants with a family of indices tracking the performance of a monthly rolling strategy

investing in inflation swaps of different tenors linked to the UK RPI inflation index. Each index replicates the performance of the strategy for the specified index tenor. Each month-end, the strategy invests in an inflation swap of the specified tenor at the prevailing swap rate and holds the swap for a month. During the month the swap is marked to market and at the end of the month, the strategy unwinds the swap and institutes a new swap at the specified tenor. The UKR BISM indices are excess return indices reflecting the performance of the swap only.

Index Objective and Key Features:

- The objective of each index is to provide a measure of the excess return of a monthly rolling strategy investing in an UK RPI linked breakeven inflation swap of a specified tenor.
- Breakeven inflation swaps provide exposure to market inflation expectations.
- BISM indices can be used as components in quant investment strategies and indices, custom liability indices and custom inflation swap overlays for real money investors.

Recent History of selected tenors of the UKR BISM Excess Return Indices:

GBR BISM ER Indices (rebased)



1. <https://bankunderground.co.uk/2023/09/06/decoding-the-market-for-inflation-risk/>



Index Statistics as of 31st March 2024

| Index | GBR 2Yr BISM ER Index | GBR 5Yr BISM ER Index | GBR 10Yr BISM ER Index |
|---|-----------------------|-----------------------|------------------------|
| Performance Statistics Since Inception | | | |
| Annualised Excess Return | 1.2% | 1.4% | 1.9% |
| Annualised Risk | 2.3% | 3.4% | 5.2% |
| Sharpe Ratio | 0.5 | 0.4 | 0.4 |
| Worst Monthly Excess Return | -2.0% | -2.2% | -3.9% |
| Best Monthly Excess Return | 3.5% | 4.3% | 5.4% |
| Max Drawdown | 5.1% | 6.7% | 9.0% |
| Performance Statistics Last 5 Years | | | |
| Annualised Excess Return | 2.4% | 2.7% | 3.5% |
| Annualised Risk | 2.9% | 4.1% | 5.8% |
| Sharpe Ratio | 0.8 | 0.7 | 0.6 |
| Worst Monthly Excess Return | -2.0% | -2.2% | -3.5% |
| Best Monthly Excess Return | 3.5% | 4.3% | 5.4% |
| Selected Annual Excess Returns | | | |
| 2021 | 6.4% | 9.1% | 13.7% |
| 2022 | 10.8% | 9.9% | 10.1% |
| 2023 | -0.7% | -0.9% | -1.5% |
| Q1 2024 (Annualised) | 0.3% | 2.4% | 5.2% |

Source: Parameta Solutions

Indices Available:

Indices are available for the following swap tenors directly from Parameta Solution. Indices can also be viewed on Bloomberg using the tickers below or from page PMET.

| Tenor | Index | Ticker | Tenor | Index | Ticker |
|-------|--------------------|----------|-------|--------------------|----------|
| 1Yr | PS 01Y GBR BISI ER | PSISR01E | 15Yr | PS 15Y GBR BISI ER | PSISR15E |
| 2Yr | PS 02Y GBR BISI ER | PSISR02E | 20Yr | PS 20Y GBR BISI ER | PSISR20E |
| 3Yr | PS 03Y GBR BISI ER | PSISR03E | 25Yr | PS 25Y GBR BISI ER | PSISR25E |
| 4Yr | PS 04Y GBR BISI ER | PSISR04E | 30Yr | PS 30Y GBR BISI ER | PSISR30E |
| 5Yr | PS 05Y GBR BISI ER | PSISR05E | 35Yr | PS 35Y GBR BISI ER | PSISR35E |
| 6Yr | PS 06Y GBR BISI ER | PSISR06E | 40Yr | PS 40Y GBR BISI ER | PSISR40E |
| 7Yr | PS 07Y GBR BISI ER | PSISR07E | 45Yr | PS 45Y GBR BISI ER | PSISR45E |
| 8Yr | PS 08Y GBR BISI ER | PSISR08E | 50Yr | PS 50Y GBR BISI ER | PSISR50E |
| 9Yr | PS 09Y GBR BISI ER | PSISR09E | 55Yr | PS 55Y GBR BISI ER | PSISR55E |
| 10Yr | PS 10Y GBR BISI ER | PSISR10E | 60Yr | PS 60Y GBR BISI ER | PSISR60E |
| 12Yr | PS 12Y GBR BISI ER | PSISR12E | | | |

Additional Information

- The price source for the UKR BISM indices is the ICAP EMEA Inflation Desk
- A business day for UKR BISM means a day on which banks are open in the UK and the ICAP Inflation Desk publishes prices; the indices are published at or around 5PM UK time based on closing prices as at 4.15PM
- UKR BISM inception date is 31st December, 2014; the indices have been rebased to 100 as of end November 2023.



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