

UK RPI Breakeven Inflation Swap Indices

Parameta Solutions' UK RPI Breakeven Inflation Swap Indices (UKR BISI) 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 post¹ 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

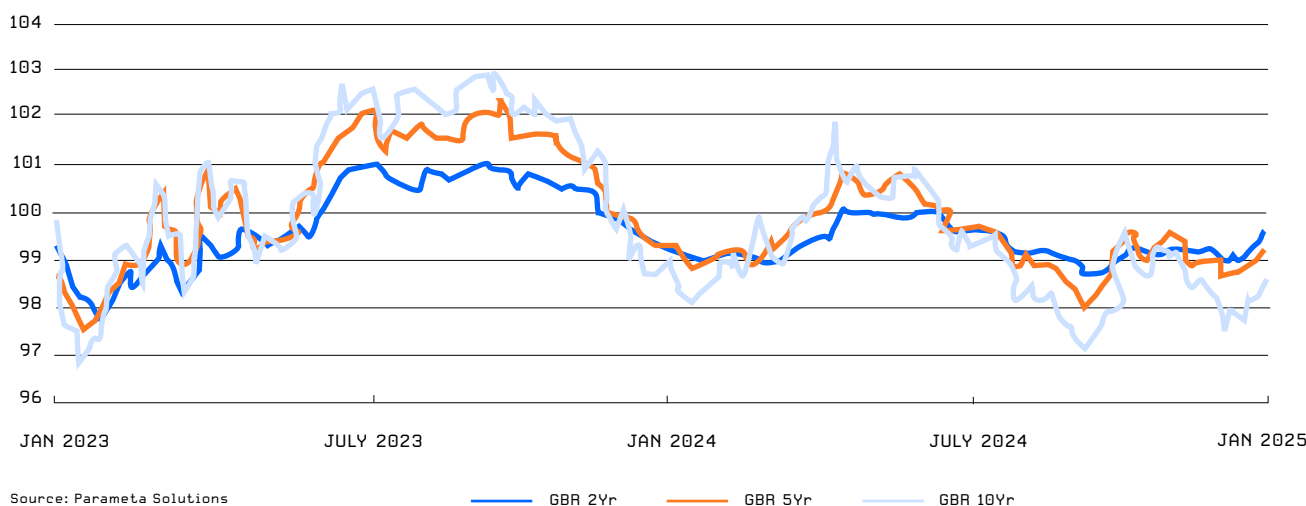
The Parameta Solutions UK RPI Breakeven Inflation Swap indices (UKR BISI) provide market participants with a family of indices tracking the performance of a monthly rolling strategy investing in inflation swaps of different tenors linked to the UK RPI inflation index. Each index replicates the performance 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 BISI 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.
- BISI 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 BISI Excess Return Indices

GBR BISI ER (rebased)



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

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Index Statistics as of 31st December 2024

Index	GBR 2Yr BISI Excess Return	GBR 5Yr BISI Excess Return	GBR 10Yr BISI Excess Return
Performance Statistics Since Inception			
Annualised Excess Return	1.1%	1.2%	1.6%
Annualised Risk	2.3%	3.4%	5.1%
Sharpe Ratio	0.5	0.4	0.3
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	2.8%	2.9%	3.6%
Annualised Risk	2.9%	4.0%	5.7%
Sharpe Ratio	1.0	0.7	0.6
Worst Monthly Excess Return	-2.0%	-2.1%	-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%
2024	0.2%	-0.1%	-0.4%

Additional Information

- The price source for the UKR BISI is the ICAP EMEA Inflation Desk.
- A business day for UKR BISI 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 BISI inception date is 31st December, 2014; the indices have been rebased to 100 as of end-November 2023.

Indices Available

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

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

Get in touch

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