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International Bond ETF Guide: All the Options For Ex-U.S. Fixed Income Exposure

by **Michael Johnston** on January 24, 2012 | ETFs Mentioned: **ALD** • **AUD** • **aunz** • **BONO** • **BUND** • **BUNL** • **BUNT** • **BWX** • **BWZ** • **CHLC** • **dsum** • **EBND** • **ELD** • **EMB** • **EMLC** • **EU** • **FWDB** • **GTIP** • **IBND** • **IGOV** • **ISHG** • **ITIP** • **JGBD** • **JGBL** • **JGBS** • **JGBT** • **LEMB** • **PCY** • **PICB** • **RMB** • **WIP**

Just a few years ago there were only a handful of bond ETFs available to U.S. investors, and almost all of them focused on securities from U.S. issuers denominated in U.S. dollars. One of the most noteworthy innovations to shape the ETF industry over the last several years has been a significant growth in international bond products; as issuers have worked around concentration-related issues and other hurdles, the universe of bond ETPs targeting markets beyond U.S. borders has grown tremendously.

The current economic environment has no doubt contributed to the growth of international bond ETFs; paltry yields on U.S. debt and concerns over the long-term outlook for the euro have understandable sparked interest in ex-U.S. bonds as a way to both boost yields and diversify away some risk [see **Better-Than-AGG Total Bond Market ETFdb Portfolio** P].

With dozens of international bond ETPs now on the market, investors have the flexibility to tap into all corners of the market. Below, we profile each and every one of the international bond ETFs out there [for more ETF insights, sign up for the **free ETFdb newsletter**]:

Emerging Markets Bond ETFs (Dollar-Denominated)

There are a handful of ETFs that offer exposure to debt of emerging markets issuers that is denominated in U.S. dollars. Because the underlying bonds are issued in the currency of the U.S., the exchange rate impact is stripped out; fluctuations in the value of the **Brazilian real**, **Indian rupee**, or other emerging market currencies relative to the U.S. dollar don't impact returns to U.S.-based investors.

- **JPMorgan Emerging Markets Bond Fund (EMB):** This ETF holds dollar denominated debt from issuers in a number of emerging markets, including Mexico, Brazil, Russia, Turkey, and the Philippines.
- **Emerging Markets Sovereign Debt Portfolio (PCY):** This PowerShares fund includes debt from about 22 emerging markets; the largest allocations are to Colombia, Indonesia, Qatar, and Vietnam.

Emerging Markets Bond ETFs (Local Currency)

- **Emerging Markets Local Debt Fund (ELD):** This WisdomTree fund is actively managed, holding local currency debt from more than a dozen emerging markets.
- **Market Vectors Emerging Markets Local Currency Bond ETF (EMLC):** This ETF also offers exposure to local currency debt; EMLC's largest holdings are to Malaysia, Brazil, Poland, South Africa, and Mexico (each account for 10% of the index).
- **Emerging Markets Local Currency Bond Fund (LEMB):** The largest country weightings in this local currency ETF are to South Korea (about 20%), Brazil (15%), and Mexico (7%).
- **SPDR Barclays Capital Emerging Markets Local Bond ETF (EBND):** This ETF has the heaviest weightings in Brazil, Korea, and Mexico.

Asia (Developed and Emerging)

The WisdomTree Asia Local Debt Fund (**ALD**) offers access to a dozen Asian economies including both developed and emerging markets: South Korea, Malaysia, Indonesia, Philippines, Thailand, India, China, Hong Kong, Singapore, Taiwan, Australia and New Zealand. The debt held by ALD is denominated in the local currencies of the constituent countries [see also **Asia-Centric ETFdb Portfolio** P].

Developed Asia Pacific

There are a number of ETFs offering exposure to debt issued by Japanese entities, including some inverse and leveraged options. Note that each of the options highlighted below is structured as an ETN:

- **3x Inverse Japanese Government Bond Futures ETN (JGBD)**
- **Japanese Government Bond Futures ETN (JGBL)**
- **Inverse Japanese Government Bond Futures ETN (JGBS)**
- **3x Japanese Government Bond Futures ETN (JGBT)**

Each of the above ETNs is linked to the **DB USD JGB Futures Index**, a benchmark that consists of futures contracts on Japanese government issued debt with maturities between 7 and 11 years. The inverse and leveraged ETNs feature a monthly reset of exposure.

There are also a couple of options available to those looking to invest in Australia's debt market; the PIMCO Australian Bond Index Fund (**AUD**) focuses exclusively on Aussie bonds, while the WisdomTree Australia & New Zealand Bond Fund (**AUNZ**) includes debt from neighboring New Zealand as well.

Developed Europe

For investors looking to gain access to debt of European issuers, the broad-based WisdomTree Euro Debt Fund (**EU**) is one option; that ETF consists of debt from Germany, France, Luxembourg, Finland, Belgium, the Netherlands, Denmark, Sweden, Austria, Slovenia, and Slovakia. For more targeted exposure to one of Europe's biggest problem areas, there are two Italy bond ETNs available:

- **Italian Treasury Bond Futures ETN (ITLY):** This ETN is linked to an index consisting of futures on intermediate-term debt issued by the Italian government.
- **3x Italian Treasury Bond Futures ETN (ITLT):** This ETN offers 3x monthly leveraged exposure to the same index.

Those looking to focus on higher quality German debt have a few options, including an ETF, an ETN, and a leveraged play:

- **German Bond Futures ETN (BUNL):** This ETN is linked to the **DB USD Bund Futures Index**, which measures the performance of futures contracts on German government debt with time to maturity of approximately 10 years.
- **3x German Bond Futures ETN (BUNT):** This ETN offers leveraged exposure to the same index, resetting on a monthly basis.
- **PIMCO Germany Bond Index Fund (BUND):** This product is structured as a true ETF, offering exposure to euro-denominated German debt. BUND doesn't focus exclusively on government debt; this ETF also includes corporate bonds.

Developed Markets

For investors seeking broad exposure to bonds of issuers in developed markets outside the U.S., there are a couple of options:

- **iShares S&P/Citigroup International Treasury Fund (IGOV):** This ETF consists of treasury bonds issued in local currencies by developed issuers excluding the United States. Top allocations from a country breakdown perspective include: Japan, Italy, Germany, France, and Belgium.
- **iShares S&P/Citigroup 1-3 Year International Treasury Fund (ISHG):** This ETF is nearly identical to IGOV, except it focuses on short-term debt securities, potentially appealing to investors looking to steer clear of interest rate risk. Top allocations by country include Japan, Italy, Germany, France, and Spain.

China Bond ETFs

The first **China** bond ETFs debuted in 2011, offering investors access to a corner of the market that had previously been difficult to access. Each of the three China bonds ETFs, which tap into the "Dim Sum" market in **Hong Kong**, offer exposure to yuan-denominated debt from issuers around the globe (including some western entities):

- **Chinese Yuan Dim Sum Bond Portfolio (DSUM)**
- **Market Vectors Renminbi Bond ETF (RMB)**
- **Yuan Bond ETF (CHLC)**

Latin America Bond ETF

For exposure to Latin American bonds, the Market Vectors LatAm Aggregate Bond ETF (**BONO**) is the only option out there. BONO's portfolio consists primarily of Brazilian and Mexican debt, but this ETF also includes debt of issuers in Colombia, Venezuela, Argentina, **Chile**, Peru, Panama, and even Jamaica.

Global Ex-U.S. Bond ETFs

The bond ETF lineup consists of a number of products that cast a wide net, holding debt securities from issuers around the globe. The following ETFs hold debt of several different countries, including both developed and emerging markets:

- **State Street SPDR Barclays International Treasury Bond (BWX):** This ETF consists of debt securities, denominated in the local currency, from investment-grade issuers, including: Japan, United Kingdom, France, Belgium, and Spain.

- **State Street SPDR Barclays Capital Short Term International Treasury Bond ETF (BWZ):** This ETF is similar to BWX, except it focuses on short-term debt securities primarily from Japan, Germany, Italy, Canada, and Spain.
- **State Street SPDR Barclays Capital International Corporate Bond ETF (IBND):** This fund is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the United States. Exposure is tilted towards European issuers, including France, Germany, and the United Kingdom.
- **iShares International Inflation-Linked Bond Fund ETF (ITIP):** This ETF's underlying index is designed to measure the performance of inflation-linked sovereign debt that is publicly issued and denominated in the local currency. Top holdings by country include: the United Kingdom, Brazil, France, Italy, and Australia.
- **PowerShares International Corporate Bond Portfolio (PICB):** This ETF tracks the performance of investment-grade corporate bonds issued in the following currencies: Australian Dollar (AUD), British Pound (GBP), Canadian Dollar (CAD), Euro (EUR), Japanese Yen (JPY), Swiss Franc (CHF), Danish Krone (DKK), New Zealand Dollar (NZD), Norwegian Krone (NOK) and Swedish Krona (SEK).
- **State Street SPDR DB International Government Inflation-Protected Bond ETF (WIP):** This fund consists of inflation-linked government bonds from both developed and emerging markets outside of the United States. Top allocation by country include: the United Kingdom, France, Italy, Sweden, and Canada.

Global Bond ETFs

There are a couple ETFs on the market that include both U.S. and international bonds, potentially appealing to investors looking for quick, easy access to a truly global fixed income portfolio:

- **AdvisorShares Madrona Forward Global Bond ETF (FWDB):** This ETF is best described as an "all-in-one" bond ETF; FWDB invests in at least 12 distinct global bond classes, allowing for investors to achieve truly diversified exposure across all corners of the investable fixed income universe.
- **iShares Global Inflation-Linked Bond Fund (GTIP):** This ETF is similar to ITIP, except it also features a significant allocation to U.S. inflation-linked debt securities.

Disclosure: Long ELD.

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