

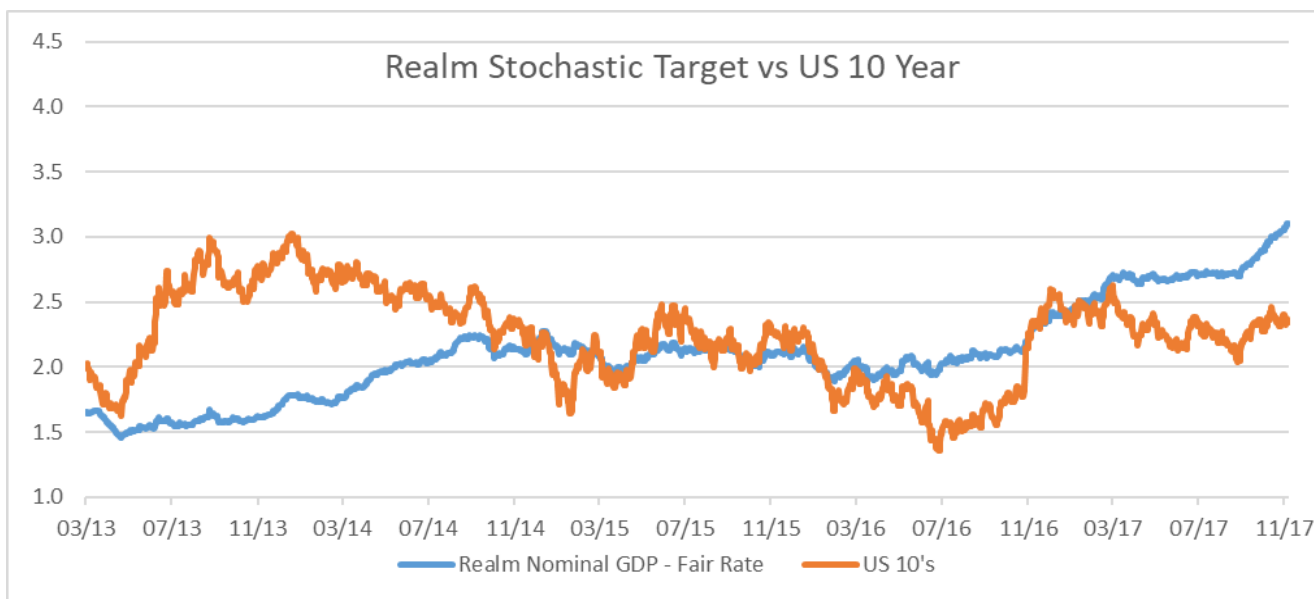
US 10 Year Bond Yield Targets

20th Nov. 2017

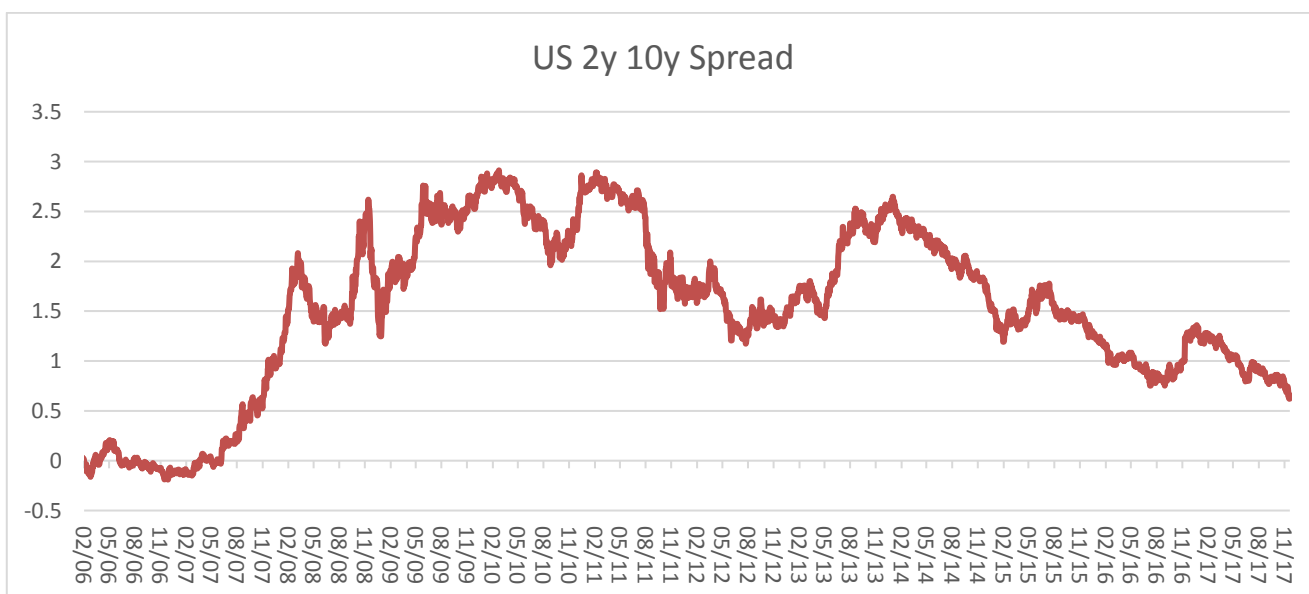
Our Implied US 10 year Bond Yield Target has risen to 3%.

On balance all major group measures are currently exhibiting strong momentum, with the exception of our capacity measure.

As things stand bonds are as expensive on our measures as they have been in the last 5 years.



This is also borne out by the spread between US 2year and US 10-year bonds, which currently sits at approximately 0.6%. This figure is approximately as low as what we saw in the shadows of the US housing crisis where rising rates saw the yield curve ultimately move to an inverse position.



For context The Feds fund rate peaked at approximately 5.25% around this time (currently 1.15%).

With a couple of rate rises priced into the shorter end of the curve, we continue to see long bonds largely unconvinced by the “normalisation narrative”.

While recent data momentum has been unquestionably solid, both in the US and globally, the bond market generally does a reasonably job of looking beyond the immediate trend.

Point of view – Portfolio positioning remains short at approximately a quarter of a year. Hard to be bullish on bonds in the face of this kind of data strength globally (both in direction and speed). As we have stated, this market is quite interesting in that both camps maintain a high level of conviction. Those that see inflation making a mockery of current interest rates would be tearing their hair out right now. For the believers in a long term structural deflationary view these are nervous times. That said momentum has been exceedingly strong and will in truth struggle to sustain itself at these levels.

We understand both arguments and they both have their merit. Ultimately, our concern is what is in the price. As things stand we feel the long end has further to rise in the shorter to medium term.

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