

Fixed-Rate Bonds Are Performing Well... But For How Long?

Consumer Price Index (CPI) Rates & 10-Year Government Bond Yields

Country	10-Yr. Gov't Bond Yields (April 2014)	Y-O-Y CPI Rates (March 2014)	10-Yr. Avg. CPI Rates (March 2014)
United States	2.65%	1.5%	2.4%
Canada	2.40%	1.5%	1.8%
Japan	0.62%	1.6%	0.0%
Germany	1.47%	1.0%	1.7%
France	1.95%	0.6%	1.6%
United Kingdom	2.66%	1.6%	2.7%
Brazil	4.24%	6.2%	5.5%
Russia	5.46%	6.9%	9.4%
India	8.83%	6.7%*	8.1%*
China	4.31%	2.4%	3.1%
South Korea	3.52%	1.3%	2.9%

Source: Bloomberg. *As of February 2014.

View from the Observation Deck

1. Year-to-date through April, the major bond categories tracked by Barclays Indices posted total returns ranging from approximately 1.00% for Treasuries (intermediate) to around 7.50% for long-term municipal bonds.
2. With the exception of high yield corporate bonds, most of the major bond categories posted negative total returns in 2013, primarily due to a 127 basis point rise in the yield on the U.S. 10-Year Treasury Note (T-Note).
3. Income-oriented investors have been diversifying their portfolios to include floating-rate debt for nearly two years. Data from EPFR Global showed that floating-rate funds reported their first net outflows in 95 weeks on 4/29/14.
4. Despite the fact that the Federal Reserve has decreased its monthly bond buying program from \$85 billion to \$45 billion, the yield on the 10-Year T-Note declined from 3.03% on 12/31/13 to 2.65% on 4/30/14.
5. The harsh winter weather season was a major impediment to economic activity throughout much of the U.S. in Q1'14, in our opinion. While the real GDP growth rate was only 0.1% (annualized), we see a sharp rebound coming in Q2'14.
6. Those investors who purchased fixed-rate bonds over the past four months have likely been rewarded. We are concerned that if economic growth accelerates moving forward the strong returns to date could dissipate.
7. The chart showing CPI data, on a global basis, is one more concern for fixed-income investors, in our opinion. As you can see, current inflation levels for most of the countries featured stand well below their respective 10-Year averages.
8. How long can this low-rate, low inflationary climate persist if economic growth accelerates in the U.S. and abroad?

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur.

