

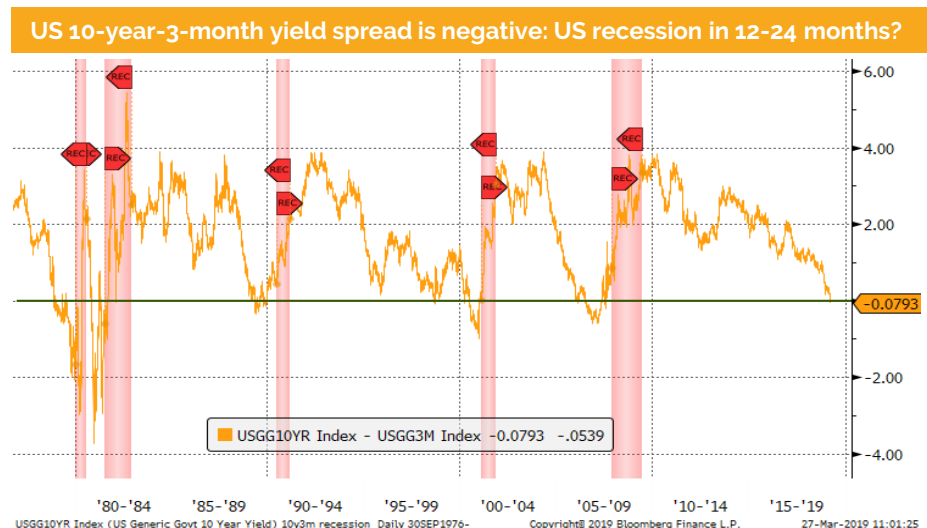


Weekly bond recommendations. **Blackfort.**

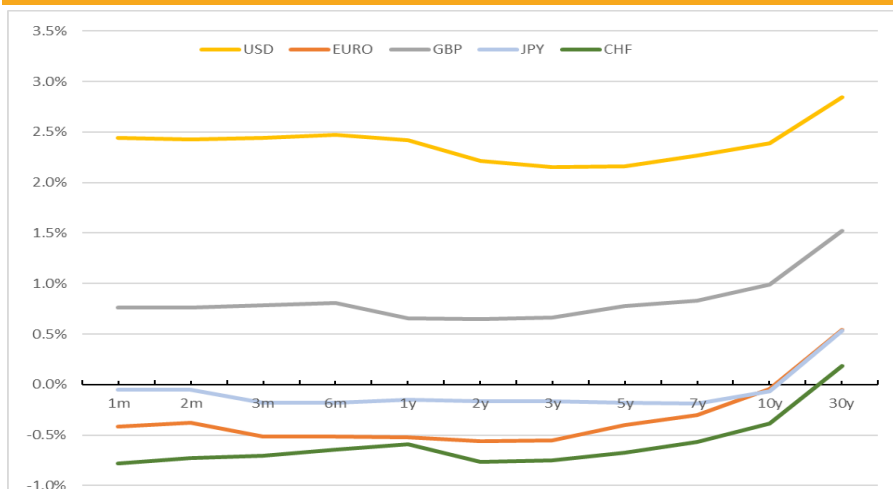


Inverted US yield curve: Negative 10-year Government yield in EURO, JPY and CHF

- ❖ After the German council of economic experts has cut their GDP forecast by 50% the market got surprised by very weak industrial PMI data for Germany and the Eurozone. The 10-year bund yield dropped below 0%.
- ❖ The 10-year government bond yields for JPY, CHF and Euros are at the moment all below 0%. More than USD 10'000 bln (i.e. almost 10% more than one week ago) of all globally outstanding bonds have a negative yield to maturity.
- ❖ In the US the 10-year government bond yield dropped further and stands now at around 2.4%, meanwhile the 1-month to 1-year bucket of the yield curve has a higher yield level than the 10-year bond!
- ❖ The yield curve has inverted. The 10-year 3-month US yield spread is negative, while the 10-year 2-year spread is still slightly positive. Based on last year's research from a local fed bank, this spread is the best indicator to predict a recession.
- ❖ The question is; will we see in the next 12-24 months a recession? The jury is still out. However, this spread needs to stay for longer below zero in order to be more accurate as a predictor. In the nineties there were two occasions where the spread was for a short period of time close or below zero and there was no recession over the next 24 months.



Not only an inverted yield curve, but also negative yields in JPY, EUR & CHF



- ❖ The actual drop in US yields was caused by weaker PMI data out of Europe. The US industrial PMI data which was published at the same day like its European pendants, was weaker than expected but stayed in the growth area while the German PMI is reaching recession levels.
- ❖ The US the Fed has managed to surprise the market by a significant U-turn and to become extremely dovish. We do not rule out, that Fed will restart buying bonds. Given the actual shape of the yield curve we reckon that an efficient way to do that would be to buy bonds at the short end to lower yields.
- ❖ Having said that, this would as well imply a rate cut. Market participants expect a cut in 2020 and give to a cut in 2019 a likelihood of around 25%.
- ❖ During the last week, corporate bonds have slightly lost value due to spread widening, but the overall the effect was minor.
- ❖ In Turkey due to local elections bonds and equities have lost significantly value. This forced the central bank to increase its policy rate. As a consequence the cost for borrowing lira increased sharply and the currency weakened further. We recommend to wait with an entrance until the situation calms down, but this could be down the road an interesting buying opportunity.

We appreciate your interest.

If you like to read more, please contact us.

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