THE SEARCH FOR "YIELD AHEAD"

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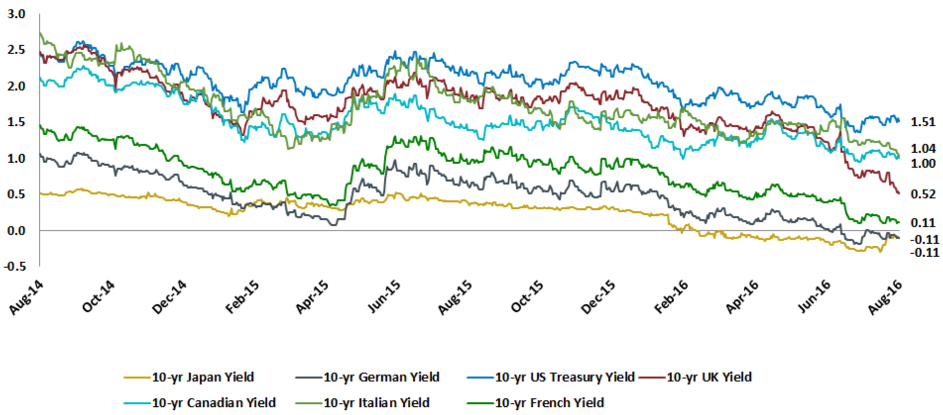
08/17/2016

Unfortunately for fixed income investors, the search for yield remains an ongoing challenge. Without a doubt, a primary culprit behind the historically low-rate backdrop in the U.S. are overseas developments, as developed world sovereign debt yields have been hitting their own new lows throughout the summer. The low-rate phenomenon does not necessarily have a "center of the universe" aspect to it, either, as yield levels on a global scale are all part of this spectacle. As the graph below clearly illustrates, low sovereign debt yields can be found throughout the G7 group of nations, ranging from Japan and Europe (Germany, France, UK, Italy) to North America (U.S., Canada). Indeed, as of this writing, the bellwether 10-year maturity ranges from a low of -0.11% in Japan and Germany to a high of only 1.51% here at home. In between, France is barely above the zero threshold, while Canada and Italy post readings around the 1% level. The UK had been the second-highest-yielding sovereign rate, but the recent Brexit fallout has 10-year gilts back into the middle of the pack, making the UK a full-fledged member of the "negative and sub 1%" club.

10-Year Treasury Yields



Source: Bloomberg, as of 08/12/2016. Past performance is not indicative of future results. 10-Year Treasury yields represented by the bond yield of each country's local 10-year on-the-run government bonds. Countries include: U.S., Japan, Germany, Canada, Italy, France and the UK.

The reasons behind the current—and more than likely upcoming— environment have been well documented: slow global growth, low inflation, flight-to-quality/event risks and the monetary policy responses associated with these developments. While there was some disappointment following the Bank of Japan's latest policy meeting, it is widely believed that more stimulus could be forthcoming and will be dovetailed with fiscal policy. Within the eurozone, the European Central Bank (ECB) should maintain its unprecedented easing responses as well. In fact, at his most recent press conference, ECB president Mario Draghi stated that the ECB is "ready, willing, able to act" if additional stimulus is needed. The recent action by the Bank of England to not only cut rates but also resume its own quantitative easing (QE) program underscored the point that G7 central bank policies should continue to keep rates historically low.

Conclusion Do the latest jobs reports alter the outlook for the Fed, where U.S. policy makers could buck the trend of the other G7 central banks? Despite two consecutive months of better-than-expected employment data, the base case scenario still does not predict a Fed rate hike before its December policy meeting. Even if the upcoming jobs report (slated for release on September 2, 2016) makes it "three in a row," the Fed still seems to be taking a very deliberate, go-slow approach to monetary policy. Against this backdrop, investors will be continuing their search for yield. According to Bloomberg, the UST 10-Year yield is holding "close to a four-month high versus their Group of Seven peers," a landscape that should continue to favor U.S.-based fixed income securities. ***Unless otherwise noted, data source is Bloomberg, as of 8/8/2016.***

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DEFINITIONS

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Sovereign Debt : Bonds issued by a national government in a foreign currency, in order to finance the issuing country's growth.

G7 : The Group of 7 is a group consisting of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

Maturity : The amount of time until a loan is repai.

Brexit : an abbreviation of "British exit" that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.

Inflation : Characterized by rising price levels.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Monetary stimulus : refers to attempts to use monetary policy like lowering interest rates or quantitative easing to stimulate the economy.

Eurozone (EZ) : Consists of the following 18 countries that have adopted the euro as their currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain (source: European Central Bank, 2014).

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.