

THE SEARCH FOR “YIELD AHEAD”

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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 [How term is in blog](#) 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-yr Treasury Yields** (INSERT CHART HERE) 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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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.

Term premium : The term premium represents the incremental yield that investors require to hold a longer-term bond, as opposed to a combination of shorter-maturity bonds.