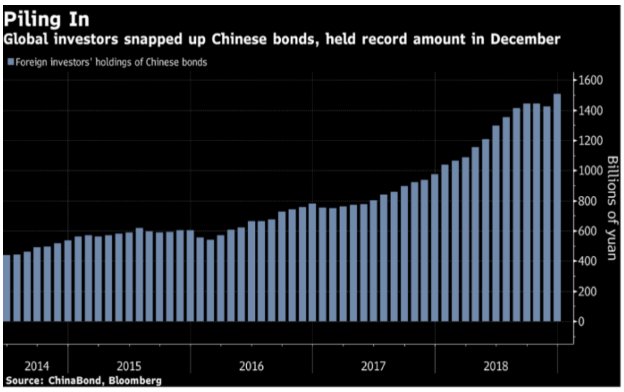
Bonds are all the rage again-or are they?

[Treasuries – Yields slide after weak global manufacturing data – CNBC April 18, 2019]
[US Treasuries: Bond prices edge higher as stocks slide – Reuters Feb 08, 2019]
[A big US fund is ready to nibble, not bite, on Chinese bonds – Bloomberg Feb 10, 2019]

What is driving bonds at the moment? It doesn't seem that long ago that bonds were as popular as a slip fielder in cricket with butter fingers, i.e. not very popular at all, and yet now they are back in vogue.

On Feb 8th the US Treasury yields slid for the fourth day, pressured by global equity market woes over concerns there would be no trade agreement by Mar 1st between China and US. Bonds are seemingly back in fashion for now; US 30-year yields dropped to 1-month lows at 2.977%, US 2y and 10y dipped to 1-week lows. The 10y bond fell below 0.1% for the first time since 2016.



On a more regional front China's local currency domestic bonds are gaining popularity. They are heading for inclusion in the Bloomberg Barclays Global Aggregate Index on a phased basis from April. Market participants anticipate other key index providers will also incorporate Chinese debt in time.
China has been mounting a long campaign to boost foreign investment into its bond market, back in 2017 China allowed onshore investments routed via HK Shanghai Bond Connect which made it easier for foreign investors to access Chinese Bonds. Although a lack of hedging instruments and some technical issues still exist, record inflows have happened (see above graph), but it has been dominated by central bank activity, not private sector investors. Once they are included in key indexes the demand for them in the private sector will naturally grow.
Obviously one of the biggest questions on the horizon is where will FED policy go next, will it be for a renewal in rate hikes or will it be for status quo or even rate cuts?

Fixed income is affected by a mix of global drivers and more local or regional issues such as markets opening up or local economic effects. Understanding what is making them behave in a particular way, at any point in time, is key to having a strategy to hedge or open risk or advise clients on potential opportunities or pitfalls.

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