Cerulli explains strange bond weather

By Editorial Staff *Thu, Jul 3, 2014*

Life insurers, holders of $2.6 trillion in long-term bonds, added about $52 billion in high-quality bonds to general account investment portfolios last year, Cerulli reported.

So far this year, rising prices of long-term U.S. Treasury bonds and other high-quality fixed income investments have surprised many investors, who were girding themselves for higher interest rates and lower bond prices.

In the June issue of *The Cerulli Edge*, analysts at Boston-based Cerulli Associates have been tracking this trend. According to the publication, investors who expected the Federal Reserve's slow retreat from massive bond-buying to raise yields have found instead that 10-year Treasury yields have fallen 60 basis points year-to-date through May 31, 2014.

During the same time-period, the Barclay's U.S. Aggregate Bond Index rose 3.8% and fixed income strategies that were benchmarked to that index saw net asset inflows, not the expected outflows.

Cerulli analysts point to the changing supply and demand in Treasuries as a possible explanation. Net issuance of Treasury debt was down 60% in 2014 when compared to May last year, while global demand for government debt reached $1.2 trillion, or double the current supply.

In addition, the analysts write, de-risking corporate pension plans and other institutional investors have locked in 2013 equity gains by moving assets into U.S. Treasury debt and other high-quality fixed income. What's more, life insurers, holders of $2.6 trillion in long-term bonds, added about $52 billion in high-quality bonds to general account investment portfolios last year, Cerulli said, citing data from A.M. Best.