Retirement Income
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Rising T-bond yields won't awaken bond bear: Standish

By Editor Test *Wed, Apr 4, 2012*

Standish's April outlook predicts that 10-year Treasury yields may settle into a new higher trading range between 2.25% and 3% by the end of 2012.

Rising yields on 10-year U.S. Treasury bonds "should not be viewed as a sign of the beginning of a bear market in the bonds," according to Standish Mellon Asset Management Co., the fixed income specialist for BNY Mellon Asset Management.

Instead, the Standish paper predicts that 10-year Treasury yields may settle into a new higher trading range between 2.25% and 3% by the end of 2012. Fair value for the bonds is approximately 3.30%, according to Standish's bond model.

The observation was made in Standish's April outlook, written by global macro strategist Thomas D. Higgins and issued after 10-year U.S. rates rose from less than 1.9% on January 1, 2012 to 2.4% in late March—the result of a combination of encouraging U.S. economic data and a reversal in the flight-to-safety bid as the risk of a European banking crisis has appeared to subside, according to the report.

"While speculation is rising that the long-awaited bear market in bonds has arrived, we believe that such thinking is premature," Higgins said. "There are a number of factors that could limit how far interest rates can rise in the short term, including the Federal Reserve's intervention in the Treasury market to keep long-term interest rates low."

Other rate-suppressing factors cited by the report include:

- Americans continue to deleverage from the housing boom of 2002 to 2007; households continue to allocate a portion of income to debt repayment. This could mean below-trend economic growth, modest inflation and lower long-term interest rates.
- Demand for Treasuries from banks and other financial institutions has increased as they become more conservative in their lending and investing.
- Geopolitical risks and potential policy mistakes could push interest rates back down toward their recent lows.

"U.S. investment grade and high-yield corporate bonds continue to offer an attractive yield versus Treasuries in the current low-rate environment," said Desmond MacIntyre, chairman and chief executive officer of Standish. "We expect these sectors to perform well given positive economic growth and muted corporate defaults."

Standish Mellon Asset Management Company LLC manages some $86 billion of assets across multiple fixed income asset classes, including corporate credit (investment-grade and high-yield), emerging markets debt (dollar-denominated and local currency), and others.