Treasury yields will lift at year-end: BNY Mellon

By Editor Test *Thu, Apr 25, 2013*

When Treasury yields begin to rise, the increase is likely to be gradual, resembling the rise in 2004 rather than the sudden increase which occurred in 1994, BNY Mellon's Standish fixed income unit believes.

Treasury yields should hold steady through mid-2013 before rising toward year-end, according to the April Bond Market Observations from Standish, BNY Mellon’s fixed income specialist.

The U.S. dollar should benefit from political uncertainty in Europe and the Bank of Japan’s aggressive policy stance, Standish said, noting that “the easing policies of major central banks have been the primary reason for the resilience of the global economy to shocks, and have helped to drive the rally in global capital markets so far in 2013.”

“In the past, shocks such as the Cypriot banking crisis and the lack of a clear winner in the Italian parliamentary elections would have sent capital markets reeling,” said Thomas Higgins, Standish’s chief economist. “Now, the flood of liquidity from global central banks has dampened investor reactions to these types of issues.”

The fiscal drag in the United States could still hurt the global economic recovery, Standish said. As a result, Standish expects the Federal Reserve to stay the course with its asset purchase program until economic activity picks up toward year-end, according to the report.

When Treasury yields begin to rise, the increase is likely to be gradual similar to the one that accompanied the Fed tightening cycle in 2004 rather than the sudden increase which occurred in 1994, Standish said. The Fed’s transparent communication with the market should alert investors well in advance of any change in policy, moderating the rise in yields, according to Standish.