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CREDIT MARKETS

Global Bond Yields Fall Near Multiyear Lows

Investors increasingly concerned the long postcrisis expansion could be nearing an end

Underscoring investors' concerns about the economy, the bond rally pushed the 10-year yield further below the yield on the three-month Treasury bill, known as an inverted yield curve. PHOTO: ANDREW HARRER/BLOOMBERG NEWS

By Daniel Kruger and Sam Goldfarb

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Investors around the world pushed government bond yields near multiyear lows Tuesday, reflecting growing concern that global economic growth is slowing.

Bond yields, which fall as prices rise, have slid in recent weeks in response to a host of factors, including tepid economic data, geopolitical tensions and signs of caution from the Federal Reserve. While few see an imminent recession, many investors worry that economic growth could falter as the effects of Trump administration tax cuts fade, companies cut back on spending and higher tariffs restrict global trade.

> Falling Treasury yields can be a warning sign to riskier assets, like stocks, if the decline signals doubts about the economy.

The yield on the benchmark 10-year U.S. Treasury note settled Tuesday at 2.268%, its lowest close since Sept. 2017. The Dow Jones Industrial Average fell 0.9%, after on Friday notching a fifth-consecutive week of declines, its longest string of weekly losses since June 2011. U.S. markets were closed Monday for Memorial Day.

Investors and analysts have struggled to understand the reasons behind the move, because Treasury yields are seen as a barometer of economic sentiment and help set the cost of debt for a range of borrowers, from home buyers and college students to multinational corporations.

Falling yields can also work to bolster stocks and growth by lowering borrowing costs and pushing yield-hungry investors into riskier assets. The decline in yields has already made home purchases more affordable, driving down the average rate on 30-year fixed-rate mortgages almost half a percentage point since the start of the year to 4.06%, according to Freddie Mac.

Rising Treasury yields jarred financial markets last fall, when investors worried the Fed would raise short-term interest rates too high, crimping growth. Early-year signals from the Fed that it would at least pause increases helped power stocks to records.

But investors now have new questions about the economy and the central bank's plans, and several said they've been cutting back on risk.

While major indexes have fallen recently, shares of utilities and real-estate companies, considered a relatively stable source of income akin to bonds, have held on to slight gains over the past 30 days. U.S. oil prices have fallen almost 8% from their 2019 highs. And corporate bond yields have fallen at a slower rate than those on Treasurys, a sign of investors' caution.

Underscoring those worries, the 10-year yield Tuesday fell further below the yield on the three-month Treasury bill. Investors watch the dispersion between yields on short- and longer-term Treasurys—called the yield curve—because shorter-term yields tend to exceed longer-term ones before recessions. That has happened several times this year; it is a phenomenon known as an inverted yield curve.

Some investors are now increasingly wagering that the Fed could cut interest rates to try to prolong the expansion. Treasury notes maturing from two to seven years are all trading below the 2.25% lower range of the federal-funds rate, a development analysts say suggests investors are betting that the fed-funds rate will fall.

"Recession fears are here and now, and it's getting priced into the [Treasury] market," said Priya Misra, head of interest-rate strategy at TD Securities.

On Tuesday, the possibility that Italy could violate the European Union's fiscal limits sent Italian yields higher and drove the yield on the 10-year German bund further into negative territory, settling at negative 0.159%, its lowest closing level since July 2016.

Negative yields are generally considered a sign of growth fears, and analysts worry they could make it more difficult for developed economies to revive growth in a recession. The European Central Bank's deposit rate is currently minus 0.4%, and policy makers this year ended bond purchases that were intended to boost growth and inflation.

The slide in global bond yields has dented many investors' hopes that the global economy could become less reliant on central banks' easy-money policies.

Many hoped recent tax cuts would break the U.S. out of a long period of slow growth and low interest rates. Now, some wonder if the Fed raised rates too quickly when tax cuts boosted growth in recent quarters.

"It seems in hindsight that the stimulative effects of the tax cuts were temporary and may have masked how tight monetary policy was getting," said Thomas Graff, who manages bond portfolios at Brown Advisory.

The additional yield bond investors demand to take the risk of holding longer-term government debt rather than shorter-term securities, known as the term premium, fell to a record low Tuesday, according to Torsten Slok, chief economist at Deutsche Bank Securities. The decline is a sign that demand for the debt is outpacing the supply.

Meanwhile, economic anxieties have helped push up the average extra yield, or spread, that investors demand to hold corporate bonds over U.S. Treasurys—though spreads are still well below where they were at the start of the year when investors feared the Fed would keep raising rates. Spreads on longer-maturity bonds have generally increased a little more than shorter-maturity debt, reflecting the risks of waiting longer for repayment. An Anheuser-Busch InBevSA 4.75% bond due in 2058 traded Tuesday with a 2.15 percentage-point spread, according to MarketAxess. That was up from 1.93 percentage points at the end of last month, though down from 2.54 percentage points at the end of last year.

The rising premium for holding riskier debt led Mark MacQueen, who manages bond portfolios at Sage Advisory, to reduce his holdings of corporate bonds, buying Treasurys and mortgage bonds in their place.

"People are coming to terms with the trade war and the impact it could possibly have," Mr. MacQueen said. "Political uncertainty is creating a situation where CEOs and CFOs don't know what to do," he said, leading to less investment in plants and equipment and slower growth.

Still, some investors still view low U.S. rates as a positive development for stocks and believe yields are due for a rebound.

"Investors tend to catastrophize" and bet on worst-case-scenarios, said Brian Jacobsen, a multiasset strategist at Wells Fargo Asset Management. He's betting that yields will be higher in the next three to six months, despite recent softening economic data.

"It's not great but we think it's not going to be bad enough to induce a recession or lead the Fed to cut rates," he said.

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