

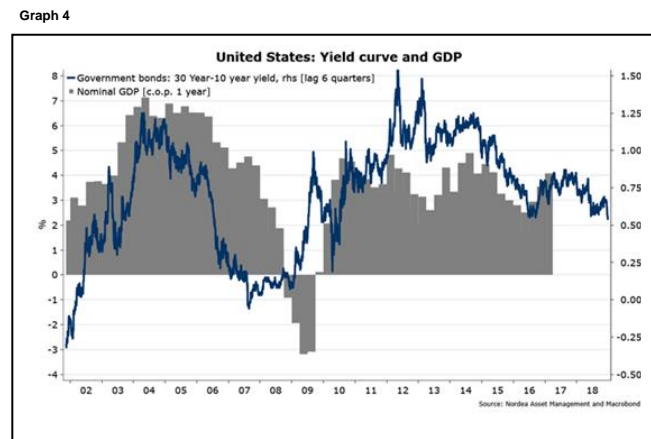
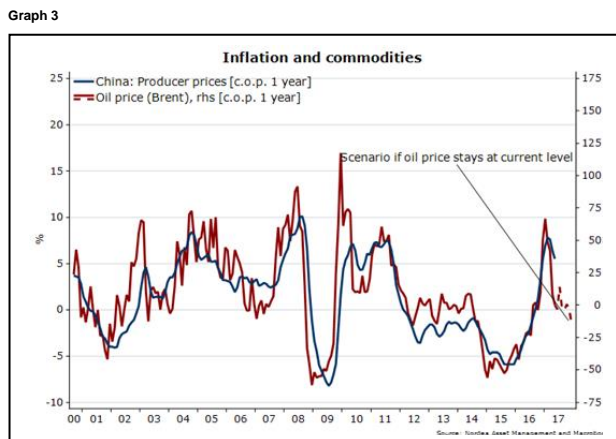
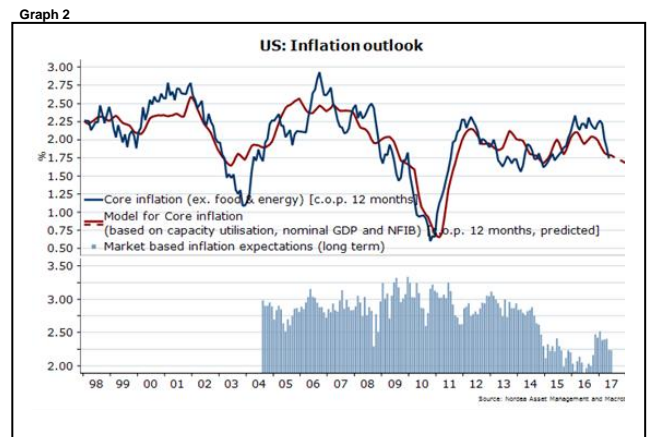
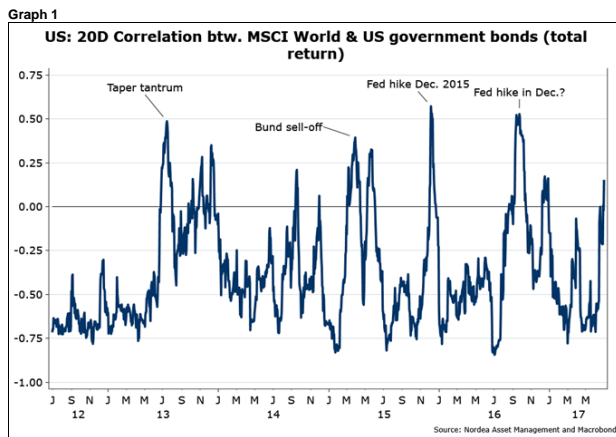
A word on rising interest rates

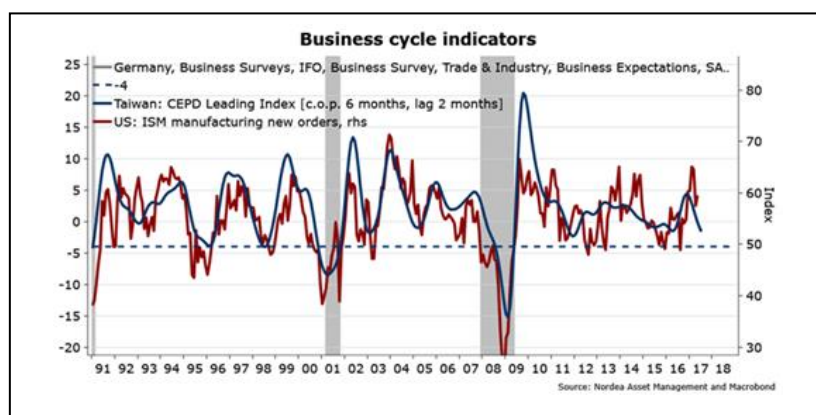
By Witold Bahrke

Interestingly, the correlation between stocks and bonds has turned positive recent days. This seems very much a reflection of central bank “herd-like” talk in a more hawkish direction (Fed, ECB, BoE). We’ve reached a critical mass of hawkish talk, creating a worry about reduced global liquidity (Fed stops reinvesting, ECB tapers in 2018), increasing the risk of a sell everything scenario – at least in the short term. Global money growth is already slowing, so markets are extremely jittery when it comes to central bank talk on the wires.

However, fundamentals have not changed as of late, still pointing towards inflation below CB targets (graph 2 & 3) and supporting bonds in the medium term. China has been the epicentre of global deflation (-hopes), and here the recent developments in oil/commodities are indicating slower inflation as well. That said, inflation expectations have fallen rapidly as of late, so some upward correction might be possible leading to higher nominal rates as well (in the short term).

Nevertheless, at the time of writing, nothing points towards a move out of the range we have been in YTD as the fundamentals have not changed. All in all, the move in rates has been brutal in the short term, but in the grand scheme of things the bond market is still pricing our “more of the same” scenario (4th graph) outlined in December. Is the bond market wrong? From a growth and inflation perspective, it doesn’t seem so (see also last graph).





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*Source: Nordea, 31.03.2017

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