

# **Bond Case Briefs**

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## **Bond Market Slide Intensifies.**

### ***Rise in yields since July has pushed the 10-year Treasury note up by more than 1 percentage point***

The worst bond rout in three years deepened Thursday, hammering debt issued in emerging markets and many U.S. states and cities, while sparing large companies the brunt of the impact.

The yield on the 10-year Treasury note rose to a 17-month high, at 2.444%, up from 2.365% Wednesday. Yields rise as bond prices fall.

The surge since July has pushed the 10-year yield up by more than 1 percentage point, only the fourth time it has risen so much so fast since 2009. Rising rates can reflect optimism about economic prospects, yet over time they can also slow growth by making borrowing more expensive for consumers and businesses.

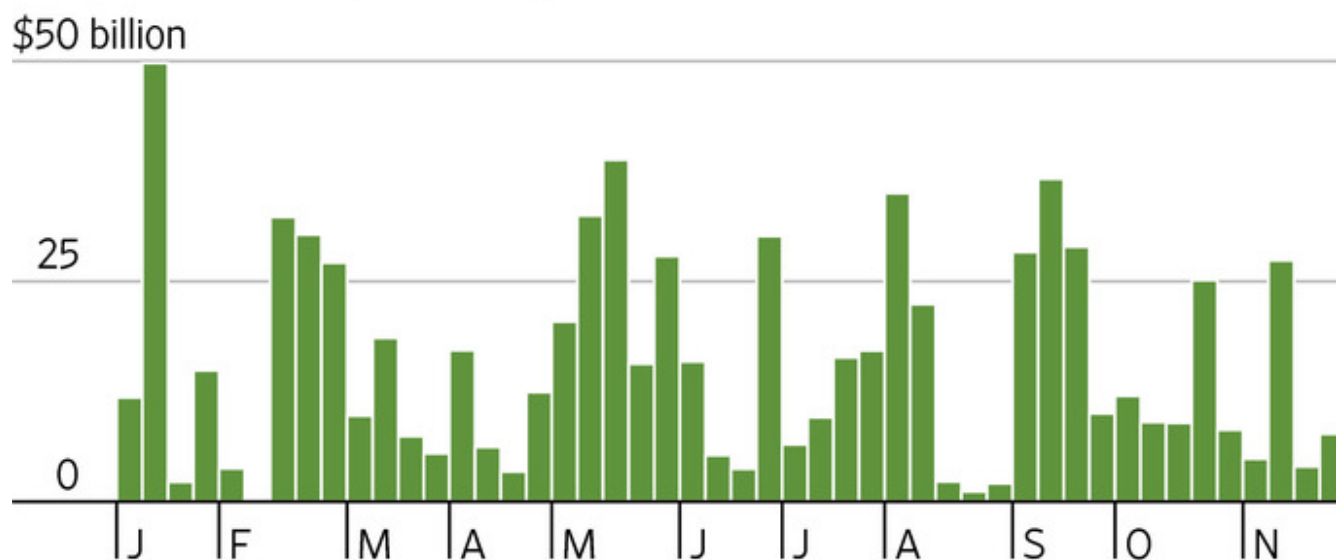
Bonds issued by emerging-market countries like Mexico and Turkey have been hit hard in recent weeks, reflecting fears that a strong dollar and the prospect of slower global trade under a Donald Trump administration will hurt companies there. U.S. municipal bond prices also have declined amid concerns that tax cuts could erode the value of the debt's tax breaks.

American companies are emerging as relative winners in the selloff. Yields are rising off such a low base that few economists or traders are concerned for now about ripple effects through the economy.

# Staying the Course

Large companies have continued to sell bonds at a rapid clip since the election, as expectations that the economy will strengthen have driven down the yield difference between corporate and Treasury debt.

## U.S. investment-grade corporate bond issuance



## Investment-grade average spreads



Sources: Dealogic (issuance); Bloomberg Barclays (spreads) **THE WALL STREET JOURNAL.**

The cross currents are the latest sign that Wall Street is placing a broad-ranging bet on an accelerating U.S. recovery. Expectations of higher growth and inflation have sent the Dow Jones Industrial Average to repeated records since Mr. Trump's election Nov. 8, while fueling gains in the U.S. dollar. On Thursday, the Dow industrials rose 68.35 points, or 0.4%, to 19191.93, its 18th record close this year.

Still, higher rates could eventually start weighing on stocks and the economy as companies begin to borrow less for expansion and consumers spend less on homes and other purchases.

“If rates were to move up dramatically higher, it will start to influence risk assets and growth and certainly housing demand,” said Rick Rieder, chief investment officer of global fixed income at BlackRock Inc., the world’s largest money manager by assets. But “we certainly are not at that level today.”

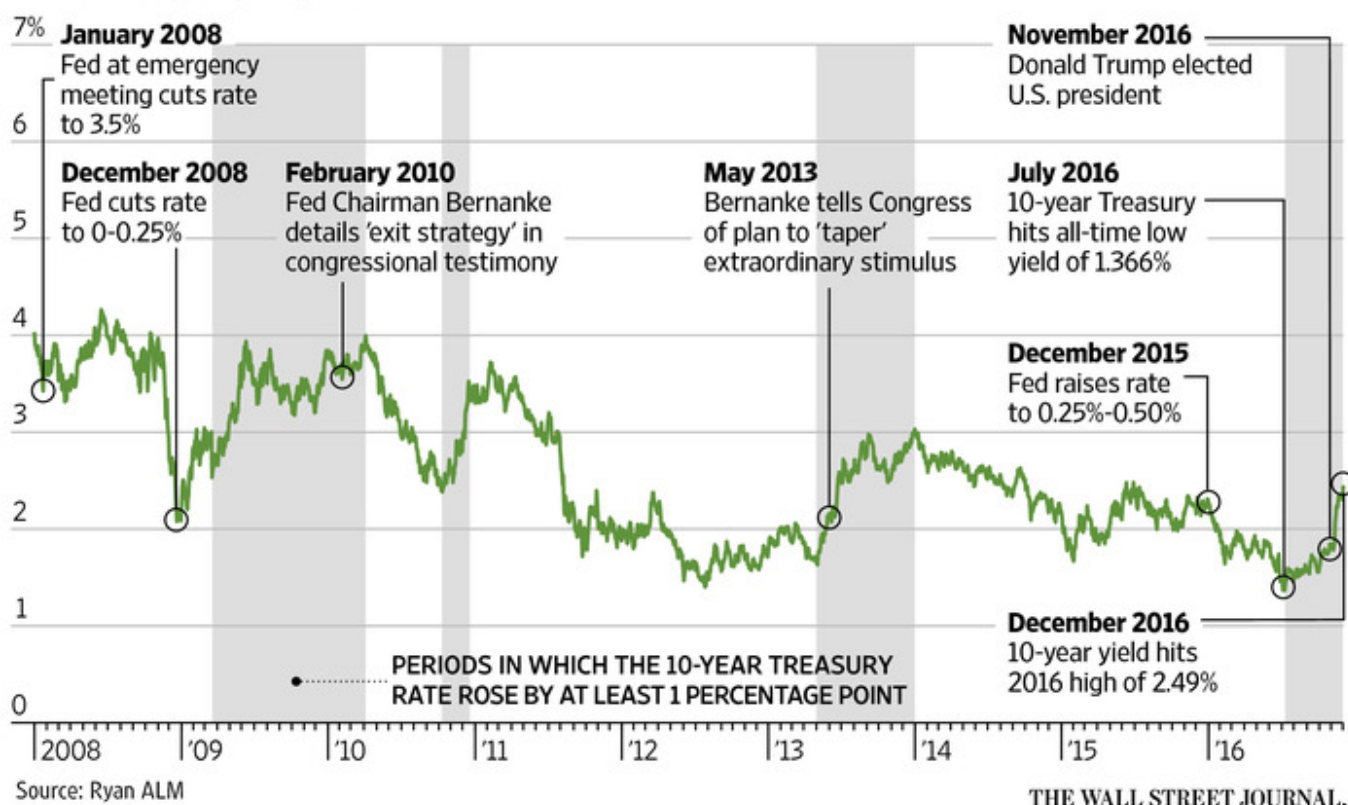
One sign of that optimism: Yields on investment-grade and low-rated corporate debt have risen less than Treasuries. That means the prices of corporate bonds have dropped less than government bonds, in a bet that economic conditions will continue to improve and help ensure firms can pay off debt.

The average spread—or the premium investors demand to buy riskier debt—of investment-grade corporate bond yields to Treasury yields has edged down to 1.34 percentage points on Wednesday from 1.37 percentage points on Nov. 8. Junk-rated corporate bonds have performed even better, with their average yield premium shrinking to 4.93 percentage points from 5.17 percentage points in that time, according to Bloomberg Barclays data.

## Past, Prologue

Treasury yields have risen sharply during the fall bond selloff, but other similar episodes in the postcrisis period ended in reversals.

### U.S. Treasury 10-year yields



Though they largely took a break during the week of the election, U.S. companies have continued to sell bonds at roughly the same pace as before the election. Over a two-week period starting Nov. 14, investment-grade bond sales totaled \$31.4 billion, compared with \$33.3 billion over the two-week period between Oct. 24 and Nov. 4—the Friday before Election Day—according to data provider Dealogic.

Issuance has been especially robust from financial companies, including Wells Fargo & Co., which sold \$7 billion of bonds Thursday. But nonfinancial companies, including junk-rated borrowers, have

also joined the fray, with recent issuers including plane and train maker Bombardier Inc. and timeshare business Hilton Grand Vacations Co.

Mr. Rieder said rising yields will likely be a positive for the economy as long as the increases remain modest, because higher long-term rates boost bank profits and tend to be associated with higher levels of lending, which often feeds through to stronger economic growth.

That process is “helping a tremendous amount of the financial system,” he said.

The selloff in Treasuries has hit emerging markets hardest. Those bonds had only recently began rebounding from a slump spanning more than a year, caused by a decline in commodity markets.

The J.P. Morgan Emerging Markets Bond Global Index Diversified had gained about 14% through September but lost 1.2% in October and 4.1% in November. Investors pulled \$1.4 billion out of emerging-market bond mutual funds in November, the first material outflow since February, according to data from Thomson Reuters Corp.’s Lipper unit.

“Emerging markets have been decimated,” said Peter Carril, founder of Patton Hall LLC, an investment adviser to high net worth individuals. “No one wants to touch it.”

Marco Santamaria, a portfolio manager at AllianceBernstein Holding LP, which invests \$23 billion in emerging-market bonds, said the firm started selling some of its riskier emerging-market bonds ahead of the U.S. election and is still waiting to dip back in.

The election also sparked a rout in debt sold by U.S. state and local governments, pushing total returns for November in the S&P Municipal Bond Index to its worst month since September 2008, according to S&P Dow Jones Indices. The iShares National Muni Bond exchange-traded fund has lost 4.3% since Election Day.

The selling reflects concerns that a Republican-led Congress and White House will cut taxes, reducing the appeal of the tax-free interest payments that make municipal debt attractive to individual investors, some analysts said. Other concerns include the possibility that Mr. Trump’s proposed increase in infrastructure spending will flood the market with new bonds, pressuring prices.

Several investors said those concerns were overblown, and they viewed the decline as a chance to buy municipal bonds after yields hit record lows earlier this year.

“This panic selling in the municipal bond market seems overdone,” said Phil Blancato, chief executive at Ladenburg Thalmann Asset Management. “This is the first opportunity in a while to buy them cheap.”

The sharp rise in yields reminds some investors of 2013, when worries that the Federal Reserve would end its bond-buying program rattled the bond market. But so far, the outflows that characterized the “taper tantrum” have yet to materialize. U.S. bond mutual funds that target Treasury securities have had 11 consecutive weeks of outflows through Nov. 23. But investors pulled just \$175 million over that span, according to Lipper. In one week in November 2013, outflows exceeded \$300 million.

“The average retail investor will be slow to change direction in their mutual fund portfolios,” said Tom Roseen, head of research services at Lipper.

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