International Fixed Income Update

Fixed income bulls prefer inflation to be a fleeting monster, but yesterday's figures are favoring the bears - US Inflation hits 31-year high.

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International Sovereign Debt Market

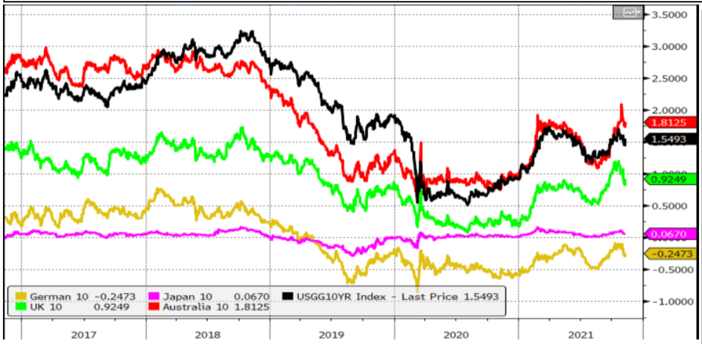
Country	U.S.	Germany	U.K.	Japan	Australia	South Africa
Central Bank Reference Rate*, (%)	0.25	-0.50	0.10	-0.10	0.10	3.50
2-yr Yield, (%)	0.51	-0.71	0.58	-0.11	0.71	5.34
10-yr Yield, (%)	1.55	-0.24	0.93	0.07	1.81	9.76
Inflation Rate, (%)	6.20	4.50	3.10	0.20	3.00	5.00
GDP Growth Rate, (%)	2.00	2.50	1.30	1.90	9.60	1.20
Unemployment Rate, (%)	4.60	5.20	4.50	2.80	5.20	34.40

Source: Bloomberg

* Rates used for Central Bank Policy may differ by definition: (Deposit Facility Rate for EU or Upper Bound of Fed Funds Target Rate for US)

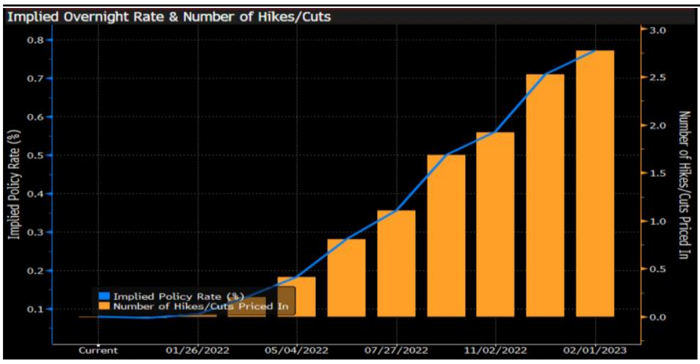
The market renewed its worries of persistently strong inflation (partly caused by oil prices hitting a 3-year high) causing US Treasury yields to be back on the uptrend after having retraced partly the recent few days. This trend was followed by most major economies' government bonds, due to the inherent nature of inflation caused by global supply chain disruptions. This was also reflected in the number of rate hikes priced in until end-2022, from 1.4x to 2.5x compared to a month ago, which lead to a steepening of the first part of the curve with the short term continuing to be anchored slightly above zero. In terms of technical analysis on the US 5yr, it seems there is a resistance around 1.30% - levels, corresponding to the 38.2% retracement from the bull move since late-2018. However, this should be short-lived as the curve is expected to bear flatten in the medium-term. Will the 200-day moving average act as the next strong support before this happens? Corporate bond trading remains at a cross road: with credit spreads at all-time lows, the bias is for corporate bond yields to go up. However this is currently balanced with increased demand as investors continue to hunt for returns.

Oil prices continued their ascent in the wake of supply chain disruptions while gold continues to underperform compared to 12 months ago. However, US Real estate continues to track the stock market, although they are both attracting more and more skeptics on whether they are entering bubble territory. Meanwhile, Facebook's parent company rebranding into Meta has put the focus back to the "Metaverse investment universe" and cryptocurrencies.



Major 10yr global sovereign yields. Source: Bloomberg

US Treasury Yield curve compared to previous month. Source: Bloomberg



Implied policy rate and corresponding number of hikes priced in. Source : Bloomberg

Technical analysis of UST 5yr. Source: Bloomberg

USD A-rated and HY Credit Spreads. Source: Bloomberg

Other assets' evolution, normalised since 1 year ago. Source: Bloomberg

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