

Risk Free rate rise checks equity gains

Further rises in US longer-dated Treasury yields seem to have undermined strong earnings figures and caused equity markets to take a breather. In turn, longer-dated bond yields have come off a little too. We anticipate both uptrends returning shortly.



Volatility

Asia not immune to G-7 market gyrations

In contrast to some of the newswire headlines this morning, it hardly appears as if the bond rout has abated. Merely, that with longer-dated government bond yields rising still further, equity markets have had a re-think and there has been some profit-taking. While it is, of course, more newsworthy to extrapolate this overnight fluctuation to something more significant, consider the following questions and their fairly obvious answers:

- Has the narrative on global growth changed abruptly?
- Do investors suddenly like the USD?
- Has the outlook for policy rates changed?

The answers to all the above are fairly clearly "No".

Moreover, investor surveys show that for this part of the business cycle, cash balances are still unusually large. In all likelihood, what has happened in equity markets overnight will be viewed by the vast majority of investors as nothing more than a dip presenting them with a great buying opportunity. If so, then we can imagine equities resuming their uptrend, and long-dated bond yields doing likewise.

The other important fact to bear in mind is that these trends are not just something that is happening "over there". Bond yields across the Asian region are also nosing slowly higher - even Japanese 10 Year Government bonds, notionally targeted at 0%, have edged up to 0.08%, their highest since July last year. Yields are moving up in Korea too, even longer-dated Indonesian bond yields have nudged a little higher recently, and in Malaysia too.

What's different in Asia is that for the most part, the central bank outlook is very muted, whilst the US Fed view is centered on another 75bp of tightening this year, and in the Eurozone, all talk is of taper and the end of QE. That Asian distinction is helped by the USD's continued weakness and low inflation domestically. But it also means that the relentless upward march of shorter-dated US Treasury yields is not being matched by similar moves in Asia - at least not to the same degree.

On a day when Asian markets are thin on news, and the same is true in the G-7 (at least until President Trump gives his State of the Union speech), we can do little but watch these markets, wait for the uptrends to resume and note, with interest, that volatility seems to be back.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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