CIO don't expect yields to keep climbing as global growth, inflation, and rates look set to fall. (UBS)

Can the rise in yields continue?

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US government bond yields, especially on longer-dated debt, hit multi-year highs in October.

US growth resilience has led markets to price for higher-for-longer US rates, while investors demand higher yields to compensate for higher US deficits. But we don't expect yields to keep climbing as global growth, inflation, and rates look set to fall. We like high grade (government), investment grade, and sustainable bonds best, preferring the 5–10 year maturity range.

Global bond yields hit multi-year highs in October, on growth resilience and deficit fears

- Yields on 10-year US Treasuries breached 5% in mid-October, some of the highest levels since 2007. They have since declined to 4.87% (as of 30 October).
- US growth resilience has been the main driver—GDP expanded 4.9% in the third quarter thanks to healthy consumer spending.
- The near 100bps climb in US 10-year yields since end July also reflects the fact investors demand more yield to hold long-dated debt (higher term premium) because the US fiscal deficit is high.

But yields should stop rising as growth and inflation slow.

- We expect the US growth outlook to be the most important driver of high-quality bonds in coming months.
- Global growth should slow and inflation moderate, so real bond returns should rise and US yields settle toward long-term equilibrium levels.
- Our base case is for the 10-year US Treasury yield to stand at 3.5%in 12 months.

Within bonds, we like high-quality segments best.

- We prefer fixed income to equities in our global strategy.
- We like opportunities in the 1–10-year duration segment in high grade (government), investment grade, and sustainable bonds. Our preferred spot is the 5-year point.

- We have implemented a 5yr/10yr duration neutral steepener that can perform well in an environment of loose US fiscal policy and tight US monetary policy.

Did you know?

- US government bonds have outperformed USD cash in 83% of five-year periods since 1925. If we look at all five-year periods since January 1977 (the earliest point with available data on a higher 2-year than 10-year Treasury yield, known as curve inversion), US government bonds have outperformed in about 90% of the time, and in 97% of five-year periods when the yield curve was inverted at the beginning of the five-year period.

Investment view

In fixed income, we like opportunities in high grade (government), investment grade, and sustainable bonds. Our preferred duration segment within high-quality debt is the 1–10-year range, with a preference for the 5-year point in US government debt. We have implemented a 5yr/10yr duration neutral US steepener that can perform well in an environment of loose US fiscal policy and tight US monetary policy., This position may also benefit if the market raises its estimates for aggressive rate cuts in the US.

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