

ARE US TREASURIES STILL A BUY?



Russell Clark's
Market Views

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Long-dated treasuries had a huge move from the beginning of 2014 through to the end of January 2015. Popular bond ETF, TLT US, realised capital returns of nearly 35%. However since its peak the bond ETF has fallen some 13%. In yield terms, the US 10 year bond reached 3% in early 2014, before declining to a low of 1.65% before selling off to reach a yield of 2.3%.

The original buy case for treasuries rested on a number of arguments.

Firstly, US treasuries have attractive real yields. This is still the case.



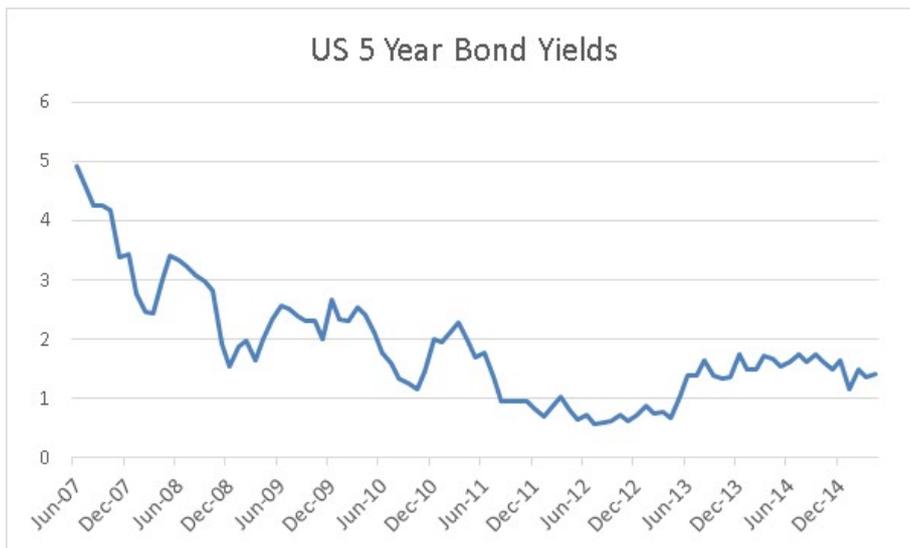
Secondly, US treasuries are attractively priced versus other government bonds. This is still the case.



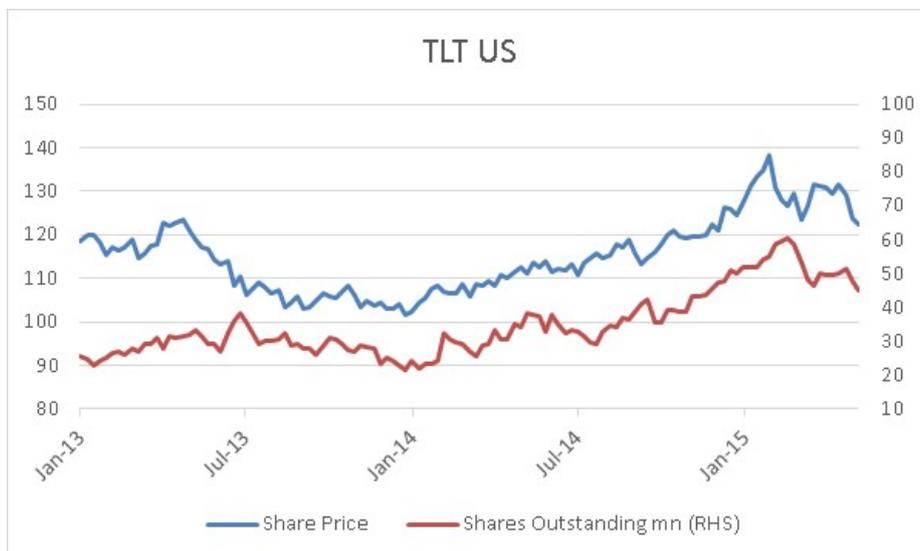
Thirdly, depreciating Asian currencies tend to be bond bullish. The JP Morgan Asia Dollar Index (ADXY Index) continues to be in a bear market, or in other words Asian currencies continue to weaken.



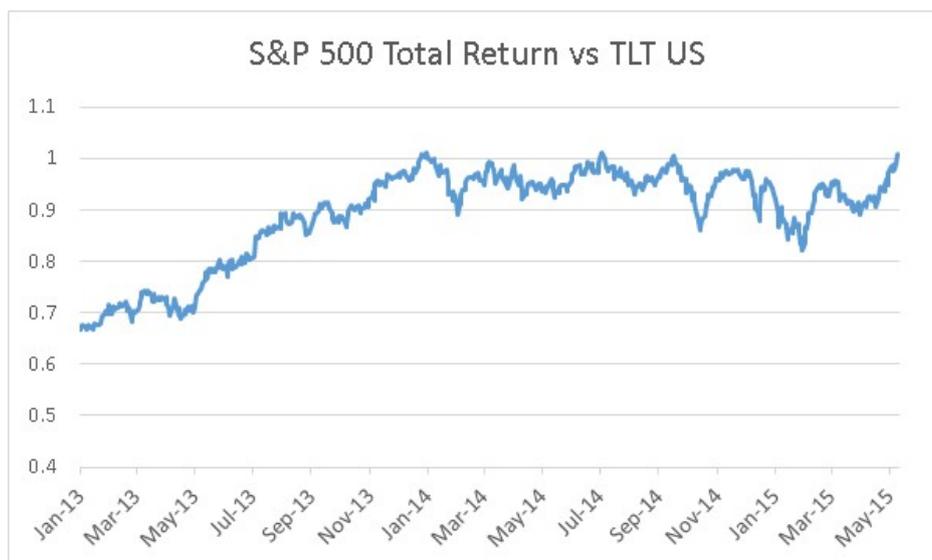
Intriguingly, US 5 year bonds have remained in the same range for the past two years, which indicates to me that there has been no meaningful change in forecasted view of short term rates in the US.



In short, I find nothing much has changed in macro terms to affect bond prices. However I do find that the investor positioning which was very bearish on bonds in early 2014 has become more bullish over the past year.



TLT US saw shares outstanding triple from January 2014 as investors chased the returns on offer from treasuries. Redemptions in early May have seen shares outstanding fall to 43.6m from a peak of 60m suggesting to me that investors have become more bearish on bonds.



Relative performance of bonds versus equities have reversed all of their outperformance from the beginning of the year.

After a strong move from January 2014 US treasuries have now sold off to what look very attractive levels to my mind.

INFORMATION

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 Investor Relations: Samantha Dunn
 Email: info@russellclarkim.com
 Telephone: +44 (0)20 7838 7580
 Website: www.russellclarkim.com

Business and registered address: Russell Clark Investment Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom. Registered in England and Wales - Company number: 04034280

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