

US 10 TO 30 YEAR TREASURY SPREADS ARE TOO NARROW

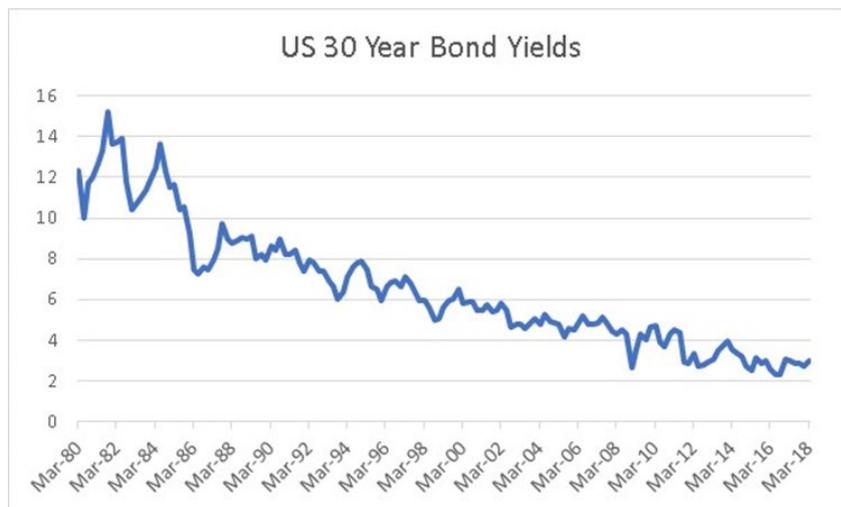


Russell Clark's
Market Views

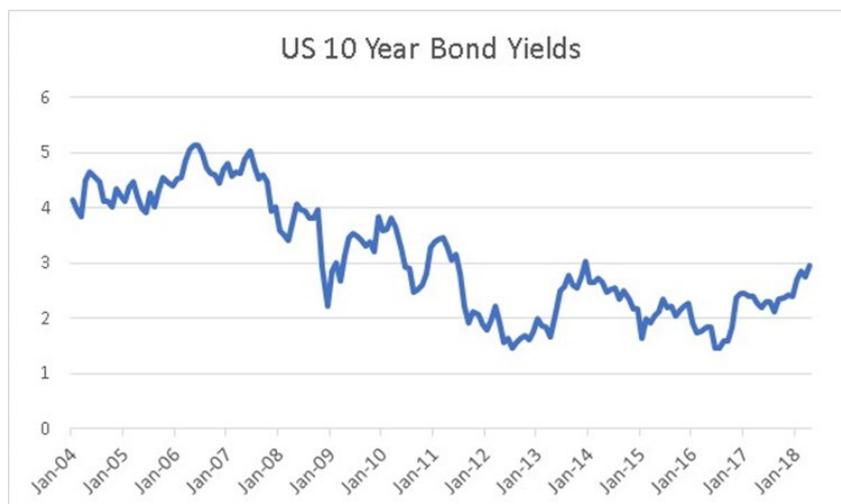
"The spread between 30 year and 10 year US bond yields is nearing record lows. This means that the 30 year yield is too low, or the 10 year yield is too high – but which is it?"



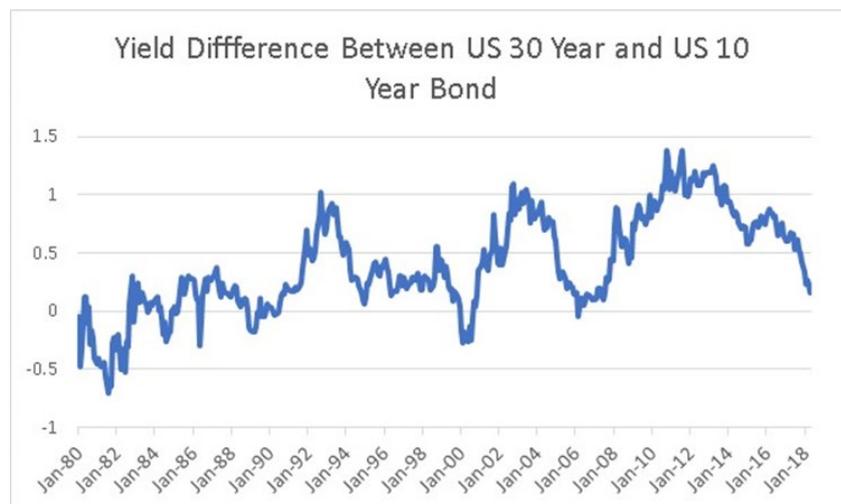
US 10-year bond (treasuries) yields have risen from 1.4% post Brexit to over 3% recently. This is close to the highest yield in 7 years and has prompted talk of the end of the bond bull market. My view, underlined by the importance of housing to the US consumer, is that this makes the 30 year treasury far more important than the 10 year. 30 year bond yields have risen recently to 3%, but are far lower than the highs of 4% seen in 2013.



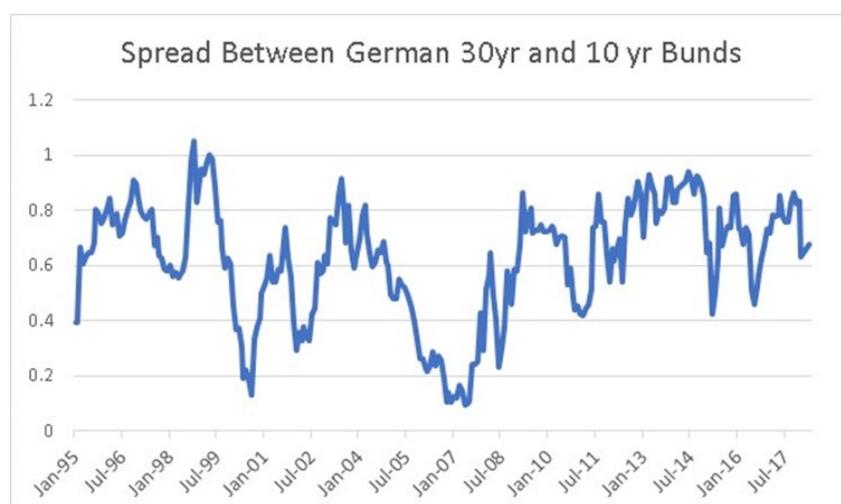
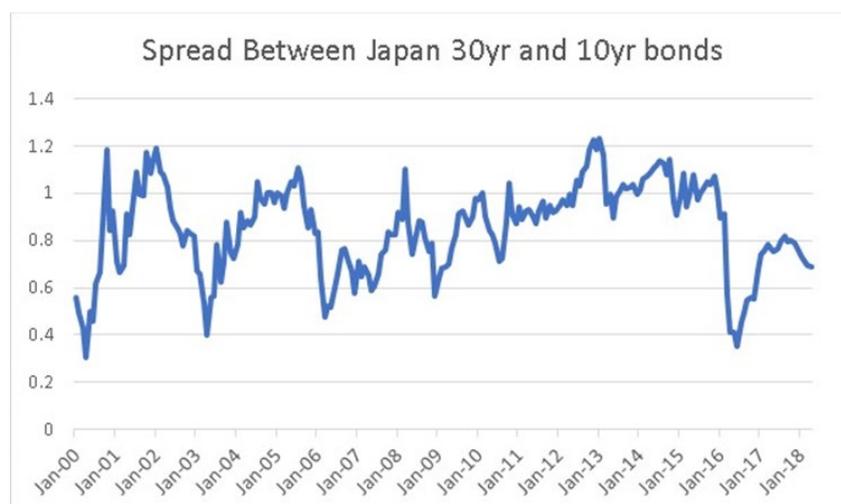
The 10-year bond yield has moved back to levels not seen since 2011, or very briefly in 2013.



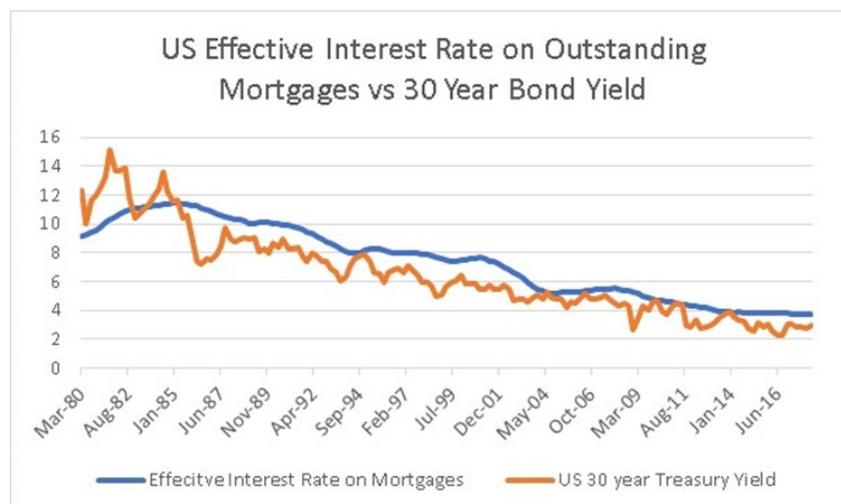
The much smaller sell off in 30-year bonds relative to 10-year bonds has seen the spread between US 10-year treasuries and 30-year treasuries fall to very low levels.



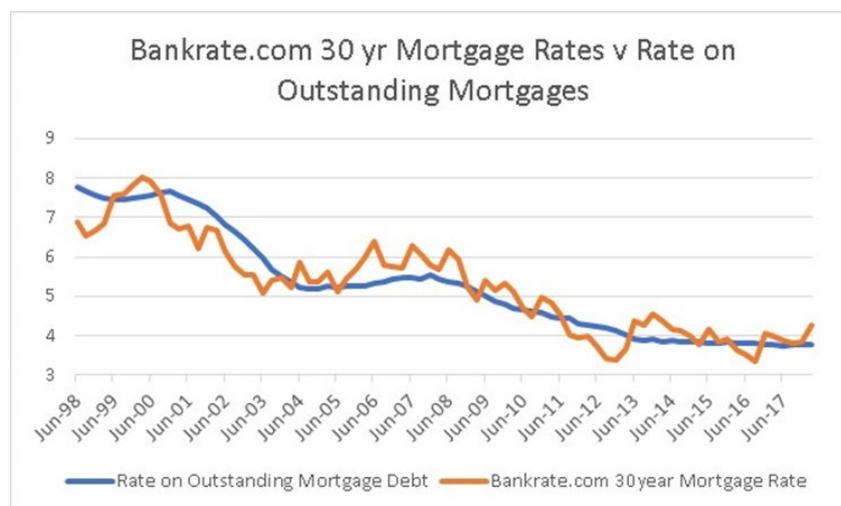
Not only is the spread low versus its own history, it is very low in comparison to either Japan or Germany. Both Japan and Germany currently have spreads of 70bps between their 30-year and 10-year treasuries. Note the start data for Japan and Germany coincides with the earliest data point available on the generic 30-year bond series on Bloomberg.



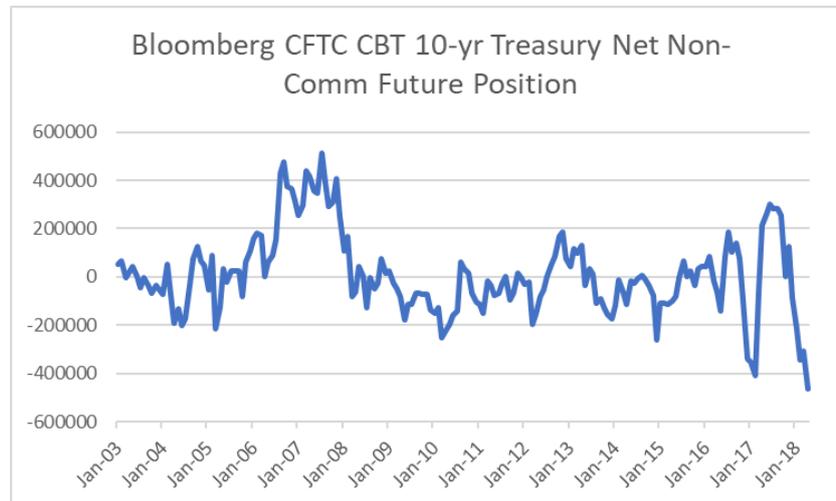
The very low spread in the US offers up two different possibilities; either the 30-year yield is too low, or the 10-year yield is too high. The 30-year mortgage rate is the key driver of both mortgage demand and refinancing. The effective interest rate on outstanding mortgage debt in the US has followed 30-year bond rates lower over time.



Looking at the chart below, we can see that whenever the rate on outstanding mortgage debt begins to rise, US domestic economic weakness has tended to follow. This happened in 2000, and in 2007. Currently offered rates are above outstanding rates, suggesting that if 30 year bond yields continue to rise, then US housing demand will begin to be impacted.



If higher mortgage rates slow growth, then the spread will more likely normalise through the 10-year bond yields falling. Currently, the market has a record spot position in US 10-year bonds.



To my mind, 30-year bond yields are unlikely to rise further, as they will begin to impact the housing market. If higher yields did impact growth then given the very low spread between the ten year bond and the 30 year bond, the move in the 10 year would likely be quite large.

INFORMATION

Issue Date: 2nd May 2018
 Source: Bloomberg, unless otherwise stated
 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

DISCLAIMER

This Market View has been prepared and issued by Russell Clark Investment Management Ltd (the "Firm") authorised and regulated by the Financial Conduct Authority. It has been approved as a financial promotion by the Firm and as such is intended **for professional clients and eligible counterparties only and is not intended for retail client use**. It is not intended for distribution to any country where such distribution or use would be contrary to local law or regulation.

This Market View is provided for information purposes only and should not be regarded as an offer to buy or sell any investments or related services that may be referenced herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The view expressed in this Market View are the views of the portfolio manager at time of publication and may change over time. Nothing in this Market View constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. Past performance is not indicative of future performance. The price of investments can go up as well as down and can be affected by changes in the rates of exchange. The information contained in this document is strictly confidential and is intended only for the use of the person who has been provided the Market View by the Firm. No part of this Market View may be divulged to any person, distributed, resold and or reproduced without the prior written permission of the Firm.

Where "forward looking" information, including estimates, projections and subjective analysis and judgement are provided no representation as to the accuracy of such projections or estimates or that they may be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions.