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The Bond “Bubble”

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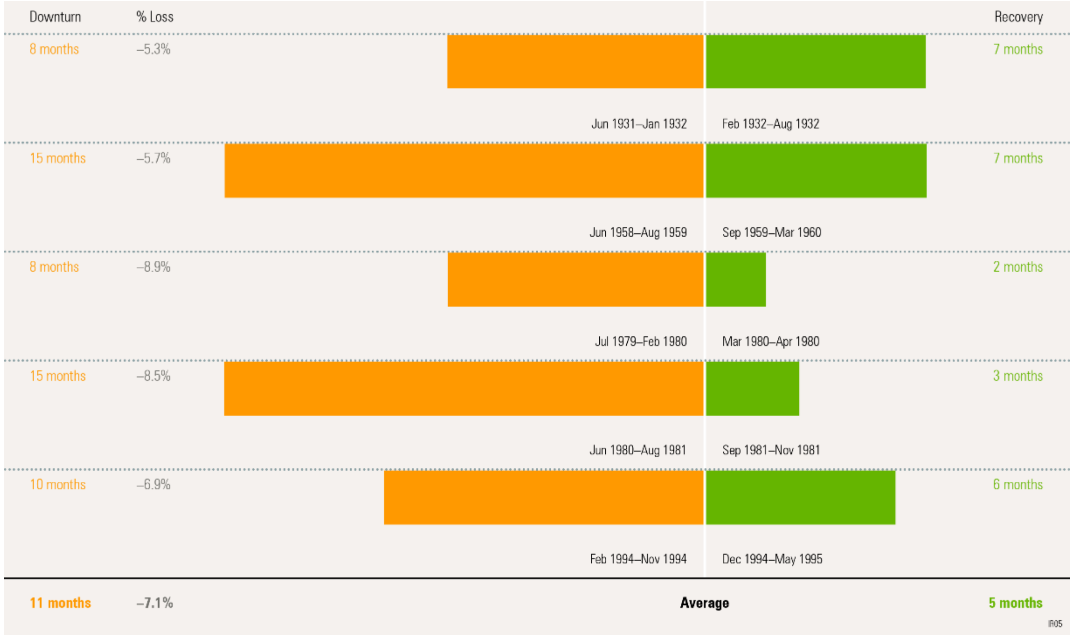
Former Federal Reserve Chairman Alan Greenspan told CNBC in March that “we are in a bond market bubble” and “prices are too high”. This warning should be taken under consideration, but first, let’s examine the empirical data behind past *bubbles*.



Between 1926 to 2018, there have been only five time periods when intermediate bonds lost more than 5%. Furthermore, the average recovery period (breakeven) during these five periods was **<u>five months.</u>**

While rates will likely be higher five years from now, it should be noted that bonds, at different maturities along the yield curve, are not affected by the same magnitude. In 2017, the Federal Reserve raised the fed funds rate three times, from 0.75% to 1.5%, while 30-year treasuries fell to 2.74% from 3.04%.

Due to the unpredictable nature of yield curve changes, investors are unable to consistently time the redemption AND repurchase of fixed income securities, especially when factoring transaction costs.

The statutory objectives for monetary policy are: maximum employment, stable prices and moderate long-term interest rates. Given that our GDP is growing at 2.2% and core CPI is increasing at 2.1%, the FOMC is not expected to increase rates rapidly, and the “bubble” is not expected to burst in the near future.