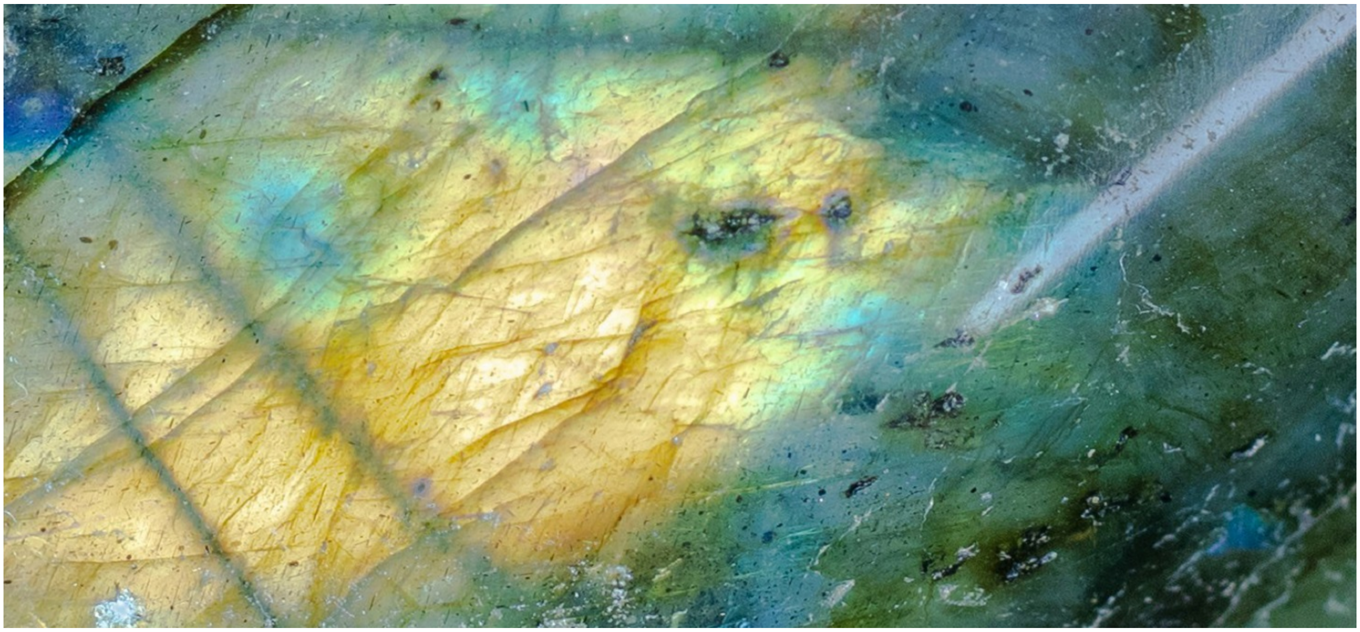

The Federal Reserve hiked rates by 25 basis points in July, setting the fed funds target range at 5.25–5.5%, the highest since 2001. (UBS)

Why should I buy bonds now?

16 April 2024, 3:48 pm CEST, written by UBS Editorial Team

Interest rates on cash still exceed government bond yields in major economies like the US. But we think slowing growth and inflation spells peaking central bank rates and lower cash rates, boosting the relative appeal of bonds.

Rates on cash have exceeded bonds, as central banks tackle inflation through monetary tightening.

- Rate hiking cycles across major economies have left cash interest rates higher than bond yields.
- US dollar cash currently earns around 90 basis points more annual income than investing in 10-year Treasuries at a yield of 4.2%.
- In the UK, the 10-year gilt offers a yield of around 4.4% compared to the short-term interest rate of around 5.5%.

But bonds can beat cash as inflation and rates fall.

- We expect slowing growth and inflation to mean a peak in central bank rates and falling bond yields (or rising bond prices).
- CIO expects the UST 10-year yield to fall by about 100bp by end-June 2024 in the base case.
- This moves represents price appreciation of about 10% for high-quality bonds, likely beating cash.

Within bonds, we best like high-quality segments.

- We prefer fixed income over equities in our global strategy.
- We like opportunities in the 5–10 year duration segment in high grade (government), investment grade, and sustainable bonds.
- Actively managed bond strategies may offer convenience, automatic reinvestment, and diversification, while managing dispersion across fixed income segments.

Did you Know ?

- The Federal Reserve hiked rates by 25 basis points in July, setting the fed funds target range at 5.25–5.5%, the highest since 2001.
- Higher bond yields are feeding through into the consumer economy via mortgage rates. In the US, the average 30 year fixed-rate mortgage had risen to 7.31% through the week ending August 18, the highest level since December 2000 according to the US Mortgage Bankers Association.
- The European Central Bank raised policy rates by 25bps in July, lifting the deposit rate to 3.75%.

Investment view

Investors now have a good opportunity to lock in currently elevated rates for an extended period. In fixed income, we like opportunities in the 5–10-year duration segment; in high grade (government), investment grade (incl. select senior financial debt), and sustainable bonds. Exposure to actively managed income strategies and yield-generating structured investments can help investors take advantage of the breadth of opportunities.

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Original report - **Why should I buy bonds now?, 24 August 2023.**