

14 February 2012

Fixed interest market update



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There was a greater degree of stability in fixed interest markets during January, despite the never-ending Greek tragedy. Gilt yields were broadly unchanged over the month, while credit spreads showed a small decline. Within the credit market the strongest performing area was financials, with subordinated debt of particular note.

The debate about the effectiveness of Quantitative Easing remains ongoing, with some commentators firmly of the view that it is a waste of time. However, within credit markets the trickle-down effect has now gained traction, with January seeing the second highest ever monthly issuance of sterling credit bonds. In part, at least, this is due to the actions of the Bank of England, which has bought back gilts and returned cash to investors in order to invest in other assets. One encouraging aspect is the return of financial senior unsecured bond issuance; this is an area which has been unpopular with investors in recent years.

We remain cautious on economic growth prospects for 2012. However, we expect that government bond yields will rise in 2012 and that credit spreads will decline, at least partially reversing the move seen in 2011.

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