



## July Bond Bulletin

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July saw several key developments in global bond markets. The European bank stress tests were taken well by investors; while the bar was not set very high it was reassuring to see information disclosed on this scale. In addition, a weakening of the BASEL III proposals was seen as improving the prospects of an orderly recapitalisation of the European bank sector. We continue to like financial bonds.

Government bond yields generally rose over the month as the immediate threat of sovereign default in Greece receded. Breakeven inflation rates in the UK edged up but still remained well below the year's high.

Credit markets were strong; in the UK investment grade corporate bonds outperformed gilts by 1.2%. The best areas in UK credit were tier 1 bank debt and the insurance sector whilst supranational bonds were the laggard. Sub-investment grade debt outperformed investment grade bonds.

RLAM funds are generally positioned for a continued improvement in credit markets. We expect government bond yields will rise from present levels and that breakeven inflation rates will increase in the second half. Within credit we prefer asset backed securities (see article by Martin Foden) and secured debt.

Source: rlam as at 6<sup>th</sup> August 2010 unless otherwise stated.

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