



Global bonds rise on signs inflation is easing worldwide

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Global bonds rallied on signs that inflation in developed nations is being brought under control. This rally was led by Canada's government debt, which saw significant gains after a decrease in the country's consumer price index. The yields on benchmark 10-year US Treasuries fell by about 4 basis points following positive inflation data from the US, which Federal Reserve Governor Christopher Waller described as "a reassuring signal." The UK is expected to release similar data soon, which could further influence the market.

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Last week's US inflation report showed prices cooling for the first time in six months, initially boosting the bond market on hopes of upcoming rate cuts by the Federal Reserve. However, market activity has since been mixed as traders await further confirmation of sustained lower inflation.

Stephen Bartolini, a fixed income portfolio manager at T. Rowe Price, noted that Waller's somewhat dovish comments, indicating a potential rate cut, combined with recent market sell-offs, contributed to lower yields. Canadian two-year yields dropped to 4.15% from 4.22% after the data release. The yield on 10-year UK notes also fell by 4 basis points to 4.13%, with the German yields dipping similarly to 2.50%.

In the US, a large block trade in two-year note futures supported gains in the front end of the curve, although these gains faded slightly in late New York trading. Waller's comments, part of a series of statements from the Federal Reserve this week, suggested that while he needs to see several more months of positive inflation data before considering rate cuts, his remarks were less hawkish than expected.

Following the easing of core inflation for the fourth consecutive month in Canada, traders are now betting on a potential rate cut by the Bank of Canada next month, with the odds of a cut now around 50%.

Source: Bloomberg