# Northern Trust | Bond Markets Are Screaming

[MUSIC PLAYING]

Global bond markets are screaming right now driving interest rates down with the hopes of capturing the attention of central bankers. Let's break it down. Weak economic reports and increased trade tensions have caught the attention of bond investors and some central bank officials. Over the past month, bond yields fell significantly, especially in the US and Europe. We've seen rate cuts from the Bank of Australia and the Bank of India.

Bond investors are figuratively screaming that central bank rates are too tight for economies that are slowing at the same time long-term inflation expectations are plummeting. In Europe, we heard from European Central Bank President, Mario Draghi, that already negative central bank rates would be on hold until at least mid-2020. Now attention is pivoted to the US where Federal Reserve Chair, Jerome Powell, is under increasing pressure to ease.

We often advise investors to ignore market noise in favor of important signals. But in this case, the noise of the bond market is actually the signal. Not only have rates fallen in the US, but parts of the yield curve have inverted, which is a worrisome sign. We have seen a slowdown in the US, even before the full brunt of the trade conflicts are felt. The US employment report last week added more fuel to this growth slowdown narrative. The Fed should listen to the bond market and consider cutting rates and soon.

We think central banks that ignore the market will do so at the expense of the economy. History tells us that an inverted yield curve is a symptom of a fragile economy. We've long felt that the Fed has gone one rate hike too far. Now with the specter of trade frictions driving down growth, we see at least two rate cuts on the horizon. In the absence of a recession and coincident with slow but positive earnings growth, we think this will ultimately support risk assets, such as equities and high-yield bonds.

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