



Bond Market Lagging Accelerating Global Growth

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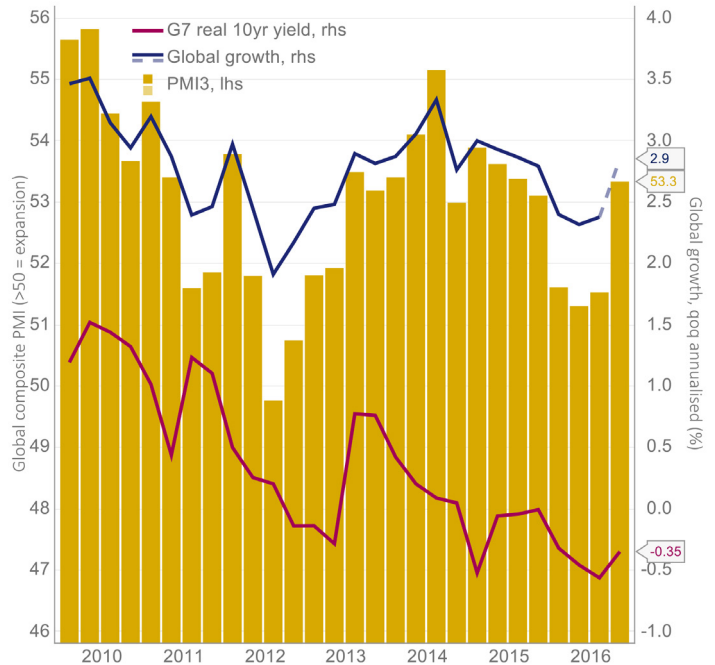
Real bond yields continue to lag the pick-up in global economic activity and in our opinion have room to move higher without choking off growth.

The global purchasing managers index (PMI) compiled from national PMIs covering almost 90% of global GDP rose to 53.4 in December, a 13-month high. The average PMI for the fourth-quarter of 2016 implies that global growth accelerated to almost 3% (quarter-on-quarter annualised) from a trough of 2.3% in the second quarter. However, the (un-weighted) average real yield on 10-year G7 government bonds rose by only 20 basis points over the same period and remains negative. The new orders component of the PMI suggests positive momentum for global growth into the start of 2017. In our view, there is room for real bond yields to move as much as 50bps higher without choking off global growth.



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Exhibit 1
Real Bond Yields Lagging Global Growth



Source: Macrobond; IHS Markit; BlueBay calculations; latest monthly data for December 2016

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