ECRI
International Cyclical Outlook
FOCUS

Forecasts of Bond Bear Market May Be Premature

Those declaring that the 35-year bond bull market has ended are conflating structural shifts and cyclical forces that could blindside them in the coming months.

A Confused Consensus Following the initial shock of Donald Trump's election victory, the consensus view of the economy quickly turned very positive, with many convinced that his proposed policies have, in effect, ended the 35-year secular bull market in bonds. Of course, given our inflation cycle upturn call *(↗ICO Essentials, August 2016)*, global industrial growth upturn call *(↗ICO Essentials, October 2016)* and U.S. growth rate cycle (GRC) upturn call *(↗USCO Essentials, December 2016)*, a Fed rate hike cycle is eminently feasible in 2017, and it is no surprise that bond yields have turned up since the summer.

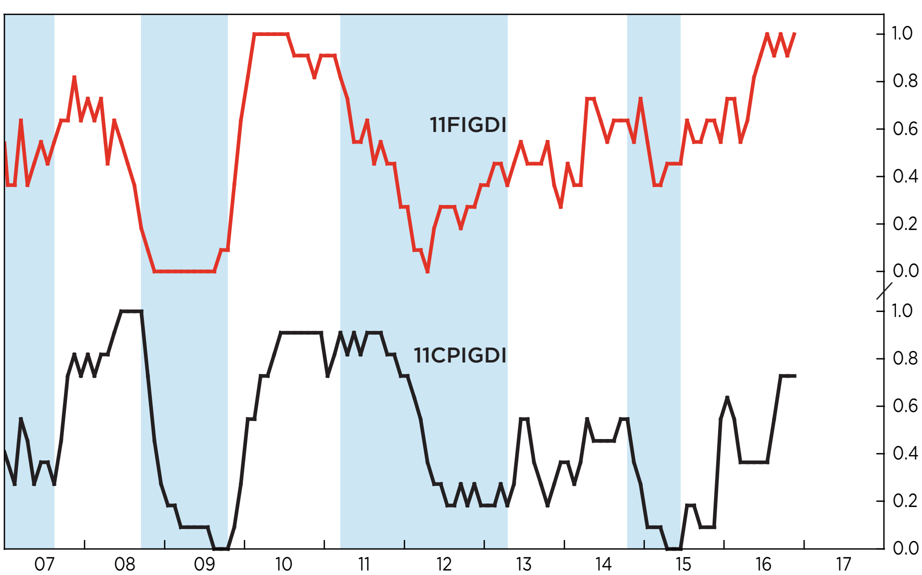
But for the 35-year bond bull market to be truly over, the long-term structural forces that underpin this secular decline in yields would need to fundamentally change, and they have not. As we will show, the recent increase in yields has been driven primarily by cyclical forces, which, by their very nature, can reverse direction in a relatively short time frame.

The following analysis demonstrates that the structural picture has not changed materially, and is unlikely to do so in the next several years. While the cyclical outlook is quite favorable for now, there are potential clouds on the horizon that bear watching.

Export price weakness is a marker of the global overcapacity that sustains lowflation — even deflation — while discouraging productivity-boosting investment.

Cyclical Forces in Action Just a year ago, deflation was a major concern in many advanced economies. However, starting with the U.S. *(↗USCO Essentials, March 2016)*,

Chart 1: Indicators of Global Inflation



Shaded areas represent cyclical downturns in the 11CPIGDI.

