



## The great return of the interest rate



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The plunge in the prices of 10-year US Treasury bonds is a telling example of the major shift taking place in developed-world economies. Inflation's aggressive comeback has caught central banks off guard and wrong-footed all the major institutional holders of sovereign bonds who have been funding the public purse – in some cases at a negative interest rate – for the past few years.

The above graph shows that the bond-market crash is affecting sovereign and corporate issuers across the board – not just those in the high-yield category, but also those with an investment grade, including the one issuer believed to be the most steadfast of all: the US government. With inflation back on the cards, we're seeing a return to positive interest rates, and therefore also to more normal economic and financial conditions.

We believe [inflation is here to stay](#), and the new bond-market landscape that's emerging is creating fertile ground [for active investment approaches](#). Active fund managers will be able to take advantage of the trend reversals in interest rates that will be triggered by swings in inflation expectations.

**This new market climate, after 40 years of disinflation or even zero consumer-price growth, is putting fixed income back on the radar by restoring its potential to deliver attractive returns and making it once again a barometer of the economy. And to that end, we would note that the apparent rebound in European bond prices could be the first sign of an upcoming recession.**

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