



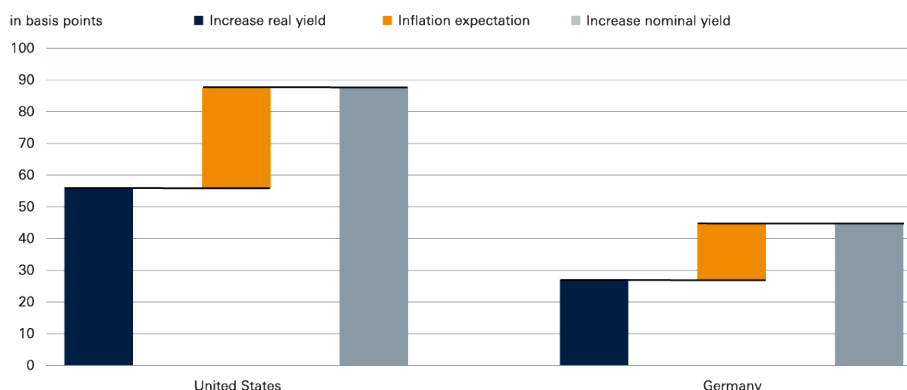
Chart of the week

When it comes to rising bond-market yields, inflation expectations tell less than half the story

Ever since the release of the U.S. January labor-market report, inflation fears have been on the rise. Some even blame inflation risks for the recent correction in stocks. But not all markets are that concerned. Take U.S. Treasuries: after touching 2% in September 2017, 10-year bond yields have surged by about 90 basis points. However, this increase was driven predominantly by rising real yields, which are commonly taken as a proxy for growth expectations. A pickup in inflation expectations has contributed as well, but to a much lesser extent. It is a similar picture for German Bunds, as our "Chart of the Week" shows. For Oliver Eichmann, Co-Head EMEA Fixed Income at Deutsche Asset Management, the bond market has a message: For now, the pick-up in yields reflects stronger growth and not so much rising inflation.

The bigger message, though, is not to read too much into any single data release, like one month's growth in U.S. hourly earnings. As we previously pointed out, inflation expectations, as derived from inflation-linked securities, have steadily been rising for more than two years ([Chart of the Week 1/12/18](#)). This is consistent with our base case of a moderate acceleration. With the U.S. labor market as tight as it has now been for a while, it was unwise to ignore inflation risks before the recent market correction. Based on the data so far, it would be equally unwise to expect a swift acceleration. For now, inflation expectations appear well anchored. Until that changes, we believe one should remain calm – but vigilant.

Change in sovereign bond yields*



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH, as of 2/15/18
* 10-year maturity, since September 7th, 2017

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Glossary

Basis point

One basis point equals 1/100 of a percentage point.

Bunds

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Treasuries

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

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