



INCOME INVESTING

# Spread Between Foreign Bonds and U.S. Treasuries Gets Wider

By Amey Stone

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Investors worried about rising rates can take solace in one fact — the higher U.S. government bonds trade, the better they look to foreign investors.

Yield spreads between Treasuries and foreign bonds are reaching peak levels this week. That means demand for U.S. Treasuries from foreign buyers and should increase — and keep a lid on how high Treasury rates can go, even if the Fed hikes short-term rates.

Jonathan Lewis of Samson Capital Advisors commented Thursday:

The big headline that no one cares about today is that the spread between 5-year maturity US Treasuries and similar maturity German Bunds have hit their all-time high for the past decade, and is in striking distance of the high established after the introduction of the Euro. According to Bloomberg analytics, the spread between German 5-year bunds and similar maturity Treasuries is now 180 basis points. This is modestly higher than the peak it reached in 2005 of about 150 basis points, and not too far away from the 1999 high of 230 basis points. Interestingly, for what it's worth, the peak in the spread between the yields of 5-year Treasuries and 5-Year German bunds also seem to occur when rates on 5-year treasuries are within 12 months or less of their peak in yield for each cycle. Given that many investors think rates are likely to go up for years to come, this simple analysis suggest rising rates, in the US at least, may be a short lived phenomena.

**John Petrides, portfolio manager at Point View Wealth Management**, believes appetite from foreign buyers may already pushing long-term Treasuries down. The yield on the 10-year benchmark Treasury note fell Thursday to 2.24%, about six basis points lower than the peak Wednesday after the Federal Open Market Committee minutes from October indicated the Fed is ready to hike rates in December.

Petrides points out that the yield on the Japanese 10-year is now down to 28 basis points while the German Bund is at 50 basis points, making the U.S. 10-year note look like “no brainer” relative to safe bonds around the world.