

## **U.S. Bond Market Strategist: 2020**

### **Financial Market Barometer: Baa Bond Yield**

Consensus forecast:

**Moody's Baa index, 3.8%,  
Posted for end of April, 2020**

As a U.S. bond market strategist, you must submit your first forecast on Tuesday, 2/11.

You may update your forecast, anytime, via email.

The forecast closest to correct, and presented the earliest, wins bragging rights.

In class, starting 2/12, you must be ready to speak about emerging developments that bear on corporate bond interest rates:

**Was the news signal or noise?**

**Are reactions to news sensible or do you have a unique interpretation?**

**Did the news change your forecast?**

On Wednesday, April 29<sup>th</sup>, Moody's will post its daily calculation for the yield on their Baa index. At that time, we will assess the accuracy of all forecasters. The closest to the mark gets bragging rights.

#### **The basics that drive interest rates:**

- Short-term, risk free treasury bills, are the anchor for interest rates and they are controlled by the U.S. Federal Reserve. Any interest rate forecast begins with a forecast for Federal Reserve interest rate policy.
- When forecasting interest rates, you need to think about real interest rates, thus you need to have a forecast for inflation and for inflation expectations.
- Real interest rates, some argue, move up and down with changing opinions about real growth rates
- The U.S. treasury's 10-year bond is risk free, but it reflects longer term expectations for where short-rates will be, what will happen to inflation and includes a term premium.
- Financial markets trade globally. Thus a bond market strategist must think about what is going on to interest rates in other nations, when putting together an interest rate forecast.
- Finally, the Baa index captures average borrowing costs for risky companies, not for the government. A risk premium, reflecting evolving opinions about company bankruptcy risks also must be considered. Monthly durable goods shipments – used to estimate equipment investment

Bloomberg screens are available to all students, in the Eisenhower library.

Here are various Bloomberg screen pages and symbols:

WB [enter]:	a global snapshot of yields on government debt.
FEDLO1 [index]:	graph of the federal funds rate
Gt10 [govt] GP [enter]:	graph of the yield on the 10-year t note.
<b>MOODCBAA [index]:</b>	<b>graph of the yield on the Baa index</b>

## U.S. federal Funds Rate (2004 thru 2/5/2020)



## U.S. treasury 10-year note (2004 thru 2/5/2020)



## Moody's Baa bond index yield (2004 thru 2/3/2020)



## Moody's Baa/10-year T note and spread

