

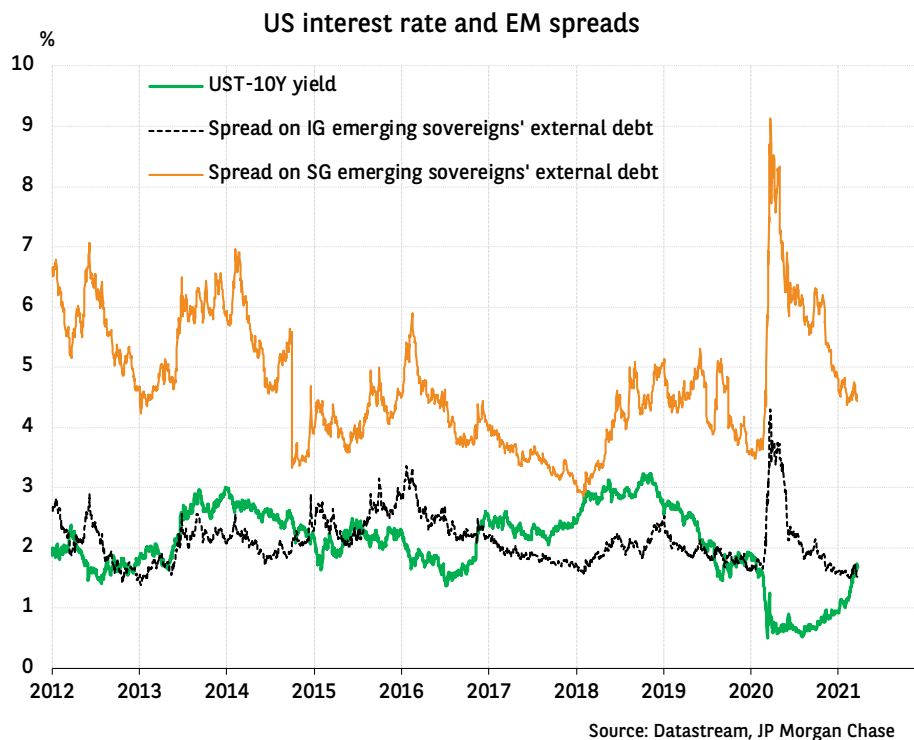
# CHART OF THE WEEK



24 March 2021

## RISING US TREASURY YIELDS: NO SPILLOVERS YET TO EMERGING BOND MARKETS

William De Vijlder



The significant increase in US Treasury yields in recent months has not yet led to a widening of the spread between US Treasuries and the global emerging bond market index. This index covers USD-denominated traded bonds & loans issued by sovereign and quasi-sovereign borrowers in a large number of developing economies, whereby a distinction is made between investment grade (IG) and the lower quality speculative grade (SG) issuers. The absence of spillovers coming from the United States is a relief. Admittedly, emerging market yields have moved higher, in line with US yields, but they have been spared from a spread widening, which would have made financing conditions even more onerous.

Things have been different in the past. The taper tantrum in May 2013 –when Fed chairman Ben Bernanke indicated that the pace of asset purchases might be slowed down- caused higher US yields and a jump in emerging spreads. On the other hand, the Federal Reserve tightening cycle that started in 2015 but gathered pace in 2017 initially saw a narrowing of spreads and it was only in 2018 that spreads moved significantly higher. The guidance from the Federal Reserve that the current accommodative stance will be maintained for a considerable time and as long as data warrant, in combination with the ongoing quest for yield by international investors suggest that at the index level, spreads should remain rather stable. Country-specific developments could of course trigger more important spread movements.

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