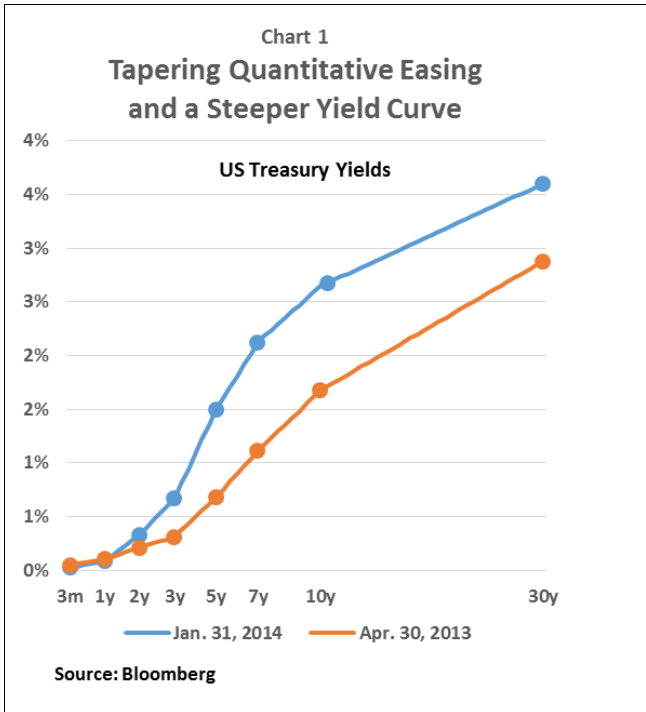
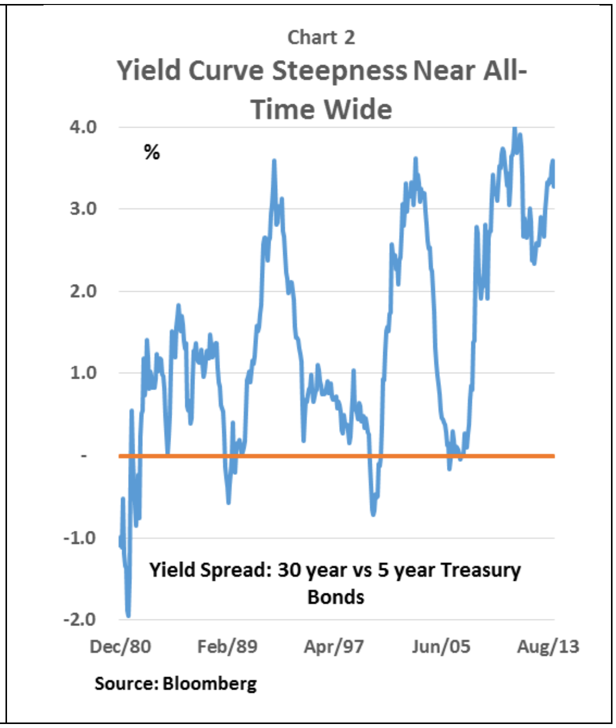
## Bond traders are an impatient lot - waiting for the Fed to tighten is not an option!

Normally when central bankers implement an "Easy" monetary policy stance they simply lower short term interest rates, impacting the cost of very short term capital (over-night rates) for major banks and carrying over to where they lend to their prime customers. The quantitative easing strategy implemented by the US Federal Reserve was a drastic response to the credit crisis wherein the central banker stepped into the bond market, buying significant portion of the government and agency issues which would normally fall into institutional portfolios – this new demand pushed down yields further out the maturity spectrum. In May of 2013, however, the Federal Reserve announced they were going to taper off this quantitative easing program. While it may be years before the "Fed" actually starts to raise rates, fixed income investors clearly showed they had no patience to wait for this to happen. As shown in Chart 1 below, highlighting the yield curve at the end of April 2013, just before the May announcement, and again at the end of last month, declining demand further out the yield curve caused steepening right away.

Last week on CNBC, former Fed Chairman Alan Greenspan focused on the spread between 30 year and 5 year Treasury notes as one of the major areas causing him concern: "That is a measure of the degree of long term, very long-term, lack of confidence. And that spread is at the widest level in American history."[1] Higher yields out the curve make it more expensive for corporate bond issuers and mortgage borrowers to put debt on their enterprise and personal balance sheets. There are some investor groups, however, that may see this as an opportunity. Examples include banks, insurers and other institutions that invest longer term but source capital through GICs and deposits will benefit from wider spreads. Also, many fixed income based hedge funds eagerly search out strategies that pay them to hold leveraged positions, long positions out the yield curve funded with short term borrowing.

At Cortland Credit our team has deep expertise in the global debt markets and would look forward to your comments – send us your insights on what's happening in these charts and questions on how to invest in fixed income markets when rates are low and potentially rising.




[1] Mathew J. Belvedere, Producer, CNBC's "Squawk Box", Interview – Greenspan on the Markets, Feb. 7, 2014.

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