Global bond yields are rising: what does it mean for *your investments?*

You may have seen recent headlines about rising global bond yields, including UK government bond yields. Matthew Cady, investment strategist at Brooks Macdonald, explains the reasons behind these rising yields, their impact on your investments, and how we are navigating these changes to help protect and grow your investment portfolio.

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Global bond yields are rising due to various domestic and international factors. This article explains bond yields, why they are increasing, and how our investment strategy seeks to manage these changes.

Understanding bond yields and their rise

A bond yield is the annual return an investor can expect to receive each year over the bond's term to maturity. The level of yield can also indicate the risk associated with the bond. For government bond yields, the yield reflects how the economy is performing given the outlook for economic growth, interest rates, and inflation. UK government bond yields have been rising, with investor expectations impacted by both domestic and international pressures.

Domestic pressures on UK government bonds

Domestically, there are concerns about the outlook for the UK public finances, with the UK's economic growth outlook currently looking more challenging. In particular, the Chancellor's recent October Budget was widely criticised for risking higher inflation pressures from raising employment costs, while also increasing government borrowing.

International pressures on UK government bonds

Internationally, the recent November US election victory of Donald Trump has raised similar concerns. The incoming Republican administration's plans for tax cuts and deregulation are likely to keep interest rates higher for longer. While the US has a stronger economic growth outlook, the US dollar's role as the world's reserve currency means that higher yields on US government debt can push up government debt yields in other countries, including the UK.

Both of these pressures have led to higher UK government bond yields. However, changes in the yield for longer-dated bonds can have a much bigger impact on that bond's price than shorter-dated bonds. This is because bonds with a longer time to go until they mature have more time for interest rates to change, and investors can earn more on newer bonds with higher coupons.

What does this mean for your investments with Brooks Macdonald?

Equities: Embracing global opportunities

We continue to prefer equities over bonds. Specifically, in our UK equities allocation, we like larger, more internationally focused companies. Why? Because they are less reliant on the UK's domestic economy and have a broader global outlook. This means less risk is tied to a single country and better diversification for your portfolio. Furthermore, as these UK companies earn a significant share of their revenue from overseas in foreign currencies, this can offer a counterbalance to any weakness in sterling currency, such as we have seen recently.

Bonds: Stability in uncertain times

When it comes to bonds, we continue to favour shorter-dated bonds, split equally between government bonds and corporate bonds (most of which are investment grade). With the economic outlook still somewhat uncertain, we like that shorter-dated bonds are less sensitive to sudden changes in the inflation and interest rate outlook while still offering attractive levels of yields.

Looking ahead: Navigating the interest rate landscape

As we look ahead, most western central banks began cutting their interest rates last year, but there is still debate about the pace of future cuts. Where interest rates eventually settle will depend on economic growth and inflation. We know that the inflation debate is far from over. As the macroeconomic picture unfolds this year, we will need to stay alert to both intended and unintended consequences. Our goal remains to respond thoughtfully to these shifts while staying focused on our longer-term investment objectives.

If you have any questions or would like to discuss your investment strategy, please get in touch.

Important information

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