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FIXED INCOME PERSPECTIVE *from the Investment Advisory Group*

Global Yields Continue to Tumble

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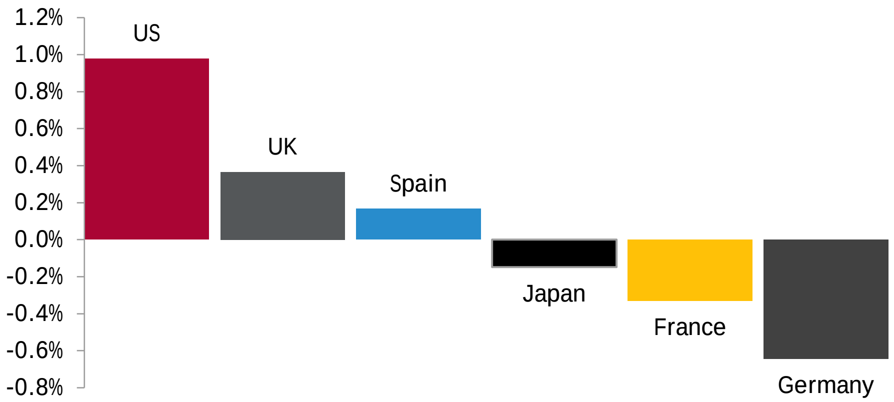
What Happened

On March 3rd, the 10-year US Treasury yield fell below the 1.0% threshold for the first time in history, touching 0.9% briefly before settling closer to 1.0%. The Federal Reserve's (Fed) emergency rate cut and rising coronavirus fears strengthened demand for the safety offered by US government debt. The 30-year US Treasury bond yield also hit its lowest point ever, tumbling below 1.6%. With the Fed's half-point (0.5%) rate cut, the spread between the 3-month/10-year US Treasury yields corrected the inversion that has been in place since mid-February.

Current Global 10-Year Government Bond Yields



Source: SunTrust IAG, Bloomberg.

Our Take

The majority of the US yield curve is trading in uncharted territory. The latest moves in the Treasury market to all-time low yields complicate the use of technical indicators and historical patterns significantly. Funds continue to flow into high quality US fixed income as most global yields remain paltry by comparison. We expect further policy easing to continue on a global scale. This would apply further downward pressure on international yields, thereby boosting foreign demand for US Treasuries. While the steepening in the

3-month/10-year curve suggests financial conditions have eased, it is largely due to the Fed's aggressive policy action as opposed to improving growth expectations.

The fed funds rate futures imply another 50 basis points (0.5%) of Fed rate cuts over the next few months, which could be realized as early as this month's meeting on March 17-

18. If the Fed meets those expectations, US yields would likely fall even further. Should the Fed lower the fed funds rate by another 0.50%, we would expect the 10-year Treasury yield to approach 0.75%. Regardless of Fed action, we anticipate the robust demand for US Treasuries from overseas to endure, preserving a powerful suppressant on domestic rates.

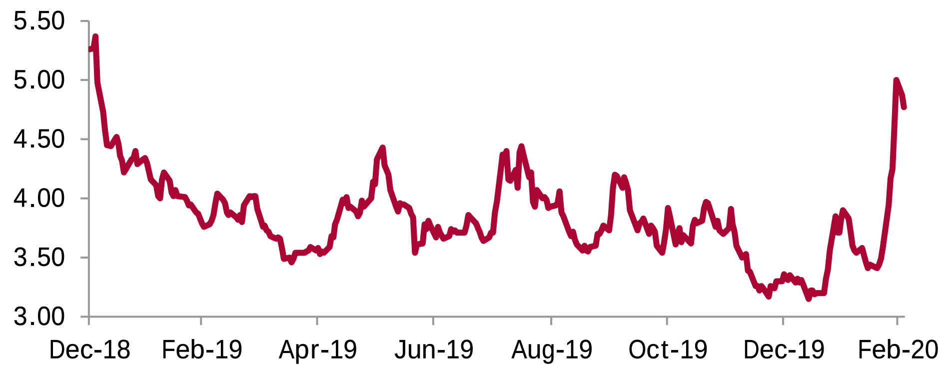
Bottom Line

Rates in the US have moved rapidly into a new, lower range. While the effects and subsequent longer-term implications of COVID-19 are still largely unknown, the impact on both domestic and global growth will be negative, causing a drop in both output and consumption. With rates now in unchartered territory, we reiterate our up-in-quality bias.

We expect rates to fluctuate, as yields are pulled down by uncertainty and a strong flight-to-quality environment. However, given the swiftness and magnitude of their recent drop, a fair amount of the anticipated disruption to growth appears built into the yield curve.

We are encouraged that after widening from very low levels, high yield credit is showing some signs of stabilization. In fact, buyers have re-entered the high yield market in search of incremental yield over the past two days. For investors with longer-term time horizons, high yield currently offers its most attractive entry point in more than a year.

High Yield Corporate Bond Spreads



Source: SunTrust IAG, Bloomberg. preads are represented by the option adjusted spread (OAS) on the Bloomberg Barclays US High Yield Corporate Index.

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