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## Long-Dated Treasurys Extend Rally As Investor Brace For Recession

NEW YORK (Dow Jones)-The Treasurys market struggled for direction Wednesday, as investors booking profits after a strong two-day rally countered others continuing to seek the safety of U.S. debt on fears of an economic slowdown.

The volatile session drew a clear divide between long-end maturities and shorter-dated notes, which saw light selling after two-year yields hit a new all-time low Tuesday.

Meanwhile, maturities further out on the curve continued to see a healthy bid. Gloomy global data, combined with the newly passed U.S. deficit-reduction plan, is casting a dim outlook on the economic road ahead. That's sending market participants into the refuge of U.S. government debt, helping long-end yields hit a series of new 2011 lows.

"I think the market is looking at the economic data and is pricing in a recessionary type of scenario," said Gary Pollack, who oversees \$12 billion as head of fixed-income trading at Deutsche Bank's private wealth management unit. Benchmark yields have fallen nearly 40 basis points in the past week, a plunge reminiscent of the last weeks of 2008, when the collapse of Lehman Brothers ignited a flight into safe-haven Treasurys.

While Pollack sees benchmark 10-year yields falling as low as 2.25% in the coming months, he also warns that there could be a rapid reversal if the government introduces supportive policy measures.

Wednesday served up a mixed batch of U.S. economic data, including a somewhat upbeat ADP jobs report but also a lower-than-expected ISM non-manufacturing index. Attention now centers on Friday's pivotal employment report--the first key gauge of the U.S. labor market for the second half of the year.

Many economists and analysts were hopeful of a pick-up in growth for the latter half of 2011, but July indicators so far have failed to impress.

**Robert King, economist at The Jerome Levy Forecasting Center, says a further cutback in consumer spending and any near-term efforts to reduce**

**fiscal spending could tip the U.S. economy back into a recession. According to the research institution, a move in that direction could drag benchmark yields as low as 1.5% in 2012 or later, depending on when fiscal tightening kicks in, and 30-year bond yields below 2%.**

This week's rally, particularly on the long end, extends a bull run in the Treasuries market that started in early April. A combination of bad U.S. data and euro-zone credit fears sent investors on a nearly uninterrupted three-month scramble into the safety of U.S. government debt. It wasn't until the highly politicized budget debate in Washington got too close to its self-imposed Aug. 2 deadline that investors sold out of Treasuries because they were afraid the debt might be stripped of its top AAA rating.

Now with a U.S. budget plan in place and lifted debt limit officially signed into law, investor attention swiftly shifted back to the gloomy economics, only worsened by the prospects of less government spending.

To be sure, there remains a camp that believes the economy will turn around. Current paltry yields offer too little income to some, who believe the rally will soon run out of steam.

"The bond market has priced in a very pessimistic view of the economy," said Anthony Valeri, fixed income strategist at LPL Financial. Valeri said current yields are "not justified" and while they might hover at these lows for the time being, it will soon be a good time to sell. He sees 10-year yields rebounding to 3.5% by year-end.

In late-afternoon trading, benchmark 10-year notes rose 2/32 in price to yield 2.615%--the lowest since early November. The 30-year bond rose 13/32 to yield 3.896%--the lowest since October. Bond prices and yields move inversely.

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