

Switzerland, Germany and Japan have negative yields going well out on the yield curve. Do you expect negative yields at any point in the US?

Clint Pekrul: This is the million-dollar question. Can the US, as the world's reserve currency, continue to be a yield oasis? How can we continue to offer positive real yields, when the rest of the global economy is under water? What I find interesting is how the narrative has changed — basically 180 degrees — from a few years ago, when rates were supposed to be coordinated higher. Former Fed chair Alan Greenspan essentially said that a zero bound on rates is illusory. Why invest at negative rates? Well, if you think prices overall are going to fall going forward, lose less today than risk deflation down the road. The implications of negative rates are well beyond the scope of this report, but I don't think the US will ultimately be immune to the zero to negative yield trend overseas.

John DeTore: No . . . but I didn't think they would go as low as they have so far either. I've heard educated arguments that falling yields are a counter-intuitive result of too much government debt. But this just seems wrong-headed to me. I brought it up earlier: the yield of bonds is set by supply and demand. Supply is certainly up given our deficit spending, but, counter-intuitively, rates are down. I am left with only one good answer: demand is up more than supply.

My suspicion is that the culprit is the post 2008 waves of regulation with its haircuts to allowed leverage, and complex capital ratios that SO favor first world sovereign bonds. I see no reason so many would be willing to hold a bond at negative rates unless they really had no legal choice. The sky is not falling, there are many great places to invest capital for positive rates. To answer the question, sooner or later we will better understand why negative rates happen. We should try and fix it. If we don't, it's probably a matter of time until it happens here.

John Mauldin: I don't expect them, and I would be really disappointed and shocked if that occurred with the world's reserve currency. I think that would have incredibly bad consequences.

Sam Stovall: No. Mainly because our Federal Reserve has been able to see that these negative rates elsewhere have proved ineffective. If anything, negative rates may have backfired from an investor behavior perspective, as they likely fear that even worse times lie ahead and that they would be better off not putting their capital at risk through investing.