



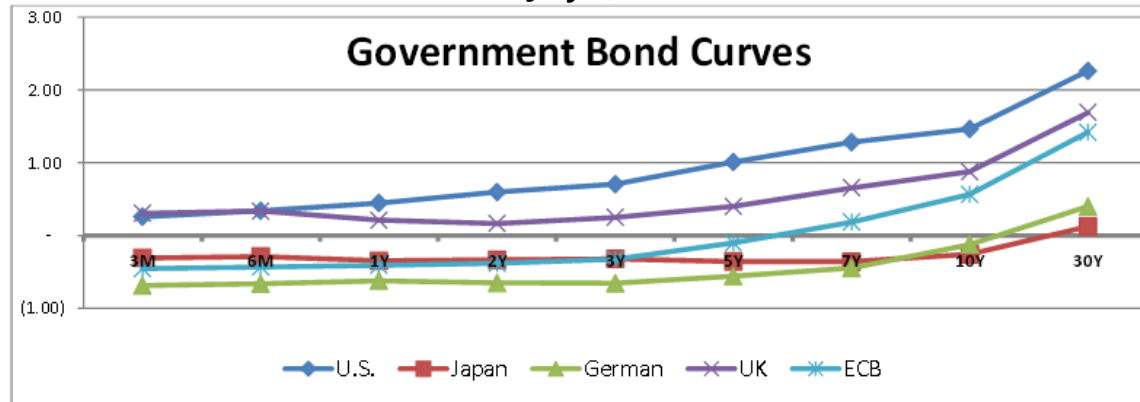
Government Bond Yields Reach a 30-Year Low (07/05/2016)

Beginning the second half of 2016, government bond yields have continued their decline and have reached their lowest point in 30 years. As a result, yield curves have flattened, with differentials between the 30-year and one-year at 180 basis points (bps) in the U.S. and only 42 bps in Japan. Japanese and German government bond yields are negative going out past the 10-year point in the curve, and the European Central Bank (ECB) curve is negative out to the 5-year point. Estimates indicate that there are currently more than \$11.7 trillion in government bonds globally with a negative yield.

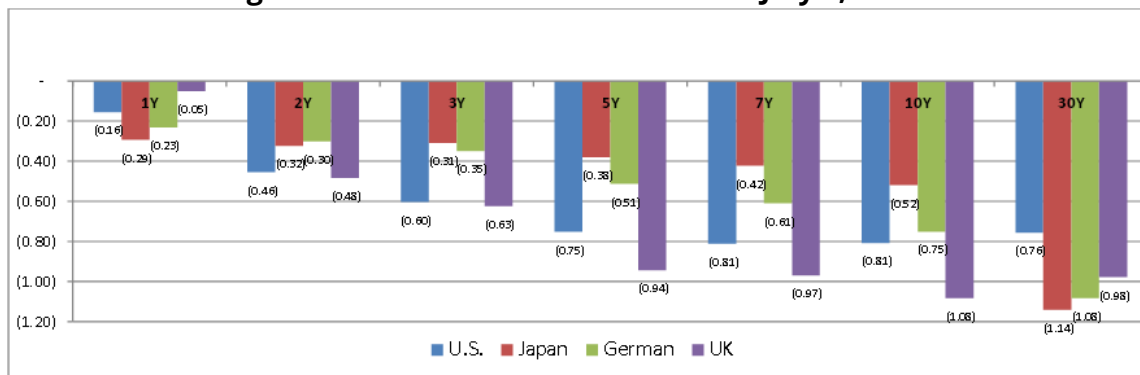
U.S. Government Bond Yields (30-Year and 10-Year) Since 1986



Global Government Bond Curves as of July 1, 2016



Year-to-Date Change in Government Bond Yields as of July 1, 2016



What does this mean for reinvestment yields?

After brief spikes following the United Kingdom (UK) referendum to leave the European Union (EU) on June 23, 2016, U.S. credit spreads retraced, and as of July 1, 2016, they were at roughly 75 bps for investment grade and 415 bps for below investment grade. Using U.S. credit spreads as a simple benchmark, U.S. 10-year corporate bonds are yielding about 2.25% for investment grade and 5.5% for below investment grade. Credit spreads are modestly wider in Europe. However, with government bond yields substantially lower, 10-year German corporate bonds now yield less than 1%. With the 30-year bund only 50 bps higher, longer-dated German corporates are not faring much better. The differential between investment grade and below investment grade also is not significant; while wider than a year ago, the current differential is only 340 bps.

U.S. Corporate Bond Spreads (Investment Grade and Below Investment Grade CDX)

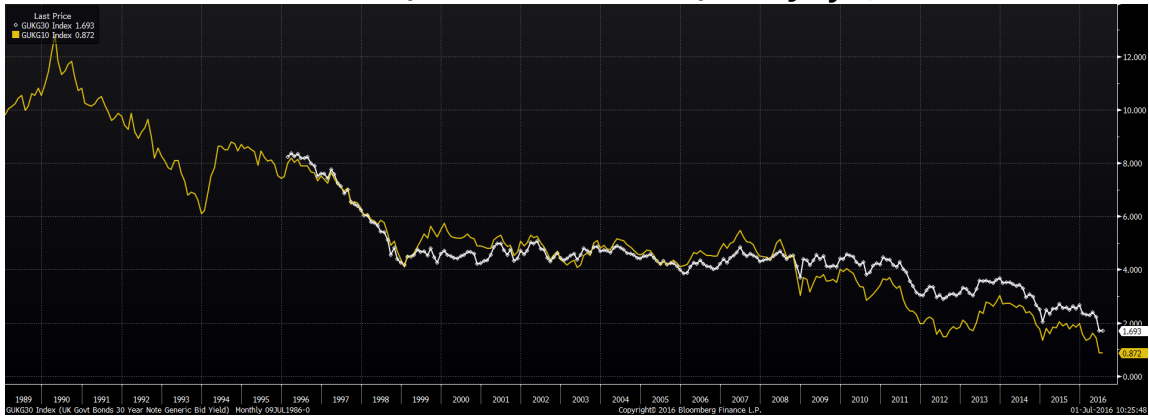


The spread differential between different government bond yields has changed somewhat since the beginning of 2016. Focusing on the 10-year point in the government bond curves, UK gilts are yielding 0.88% versus U.S. Treasuries at 1.46%, or a differential of 59 bps. This represents an increase from 31 bps at the end of 2015. Comparisons of the spread differential between U.S. 10-year Treasuries with other major government bonds have moved in the opposite direction. The differential with Germany has narrowed 6 bps points (159 bps versus 164); with Japan, it has narrowed 29 bps (172 bps versus 201); and with the ECB, it has narrowed 11 bps (90 bps versus 101). These statistics have implications on currency exchange rates, which will affect companies with international operations to the extent their revenues and earnings are not stated in U.S. dollars.

Euro Versus U.S. Dollar, July 1, 2011–July 1, 2016



U.K. Government Bond Yields (30-Year and 10-Year) as of July 1, 2016



German Government Bond Yields (30-Year and 10-Year) as of July 1, 2016



Japanese Government Bond Yields (30-Year and 10-Year) as of July 1, 2016



The NAIC Capital Markets Bureau will continue to monitor trends within government yields and report as deemed appropriate.

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