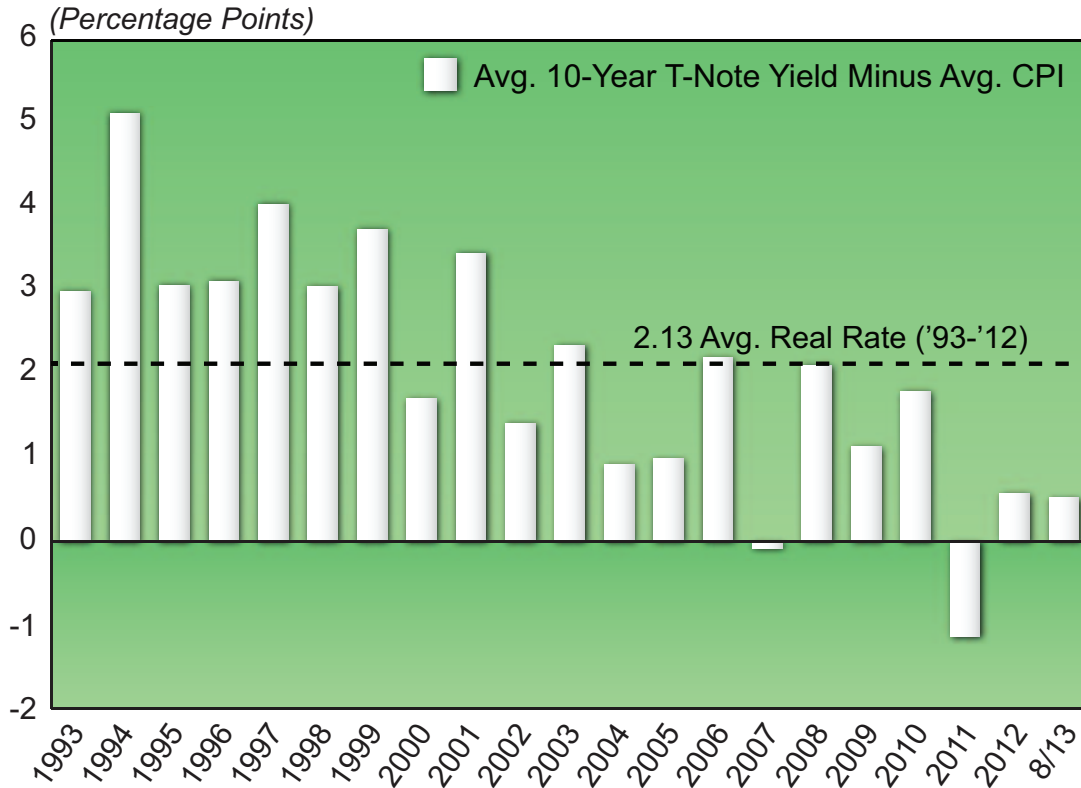


# Treasury Bondholders Need To Get “Real”

## Real Rate Of Return On 10-Year T-Note



Source: Bloomberg. Past performance is no guarantee of future results.

## View from the Observation Deck

1. For the 20-year period ended 2012, the average real rate of return (yield less inflation) on the 10-Year T-Note was 2.13 percentage points (see chart). This figure does not take taxes into account.
2. In reality, that 20-year period is much more of a tale of two halves. From 1993-2002, the average real rate of return was 3.17 percentage points. From 2003-2012, it was a meager 1.09 percentage points.
3. The former is much closer to the historical norm. The latter indicates that bondholders have not been earning much of a return after adjusting for inflation.
4. The average real rate of return year-to-date was 0.53 percentage points (thru 8/13).
5. A survey of economists by Bloomberg revealed the following average quarterly yield estimates for the 10-Year T-Note: 2.81% (Q4'13); 2.95% (Q1'14); 3.08% (Q2'14); 3.24% (Q3'14) and 3.33% (Q4'14).
6. The 10-Year T-Note closed today's trading at 2.51%. Its average yield over the past 20 years (10/22/93-10/22/13) was 4.75%.
7. Shifting capital from risk assets to Treasuries in the midst of the financial crisis in 2008 and 2009 was a logical move for many investors, in our opinion. The question now is: What's the next move?

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur.