Treasury Bondholders Need To Get “Real”

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?

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

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.