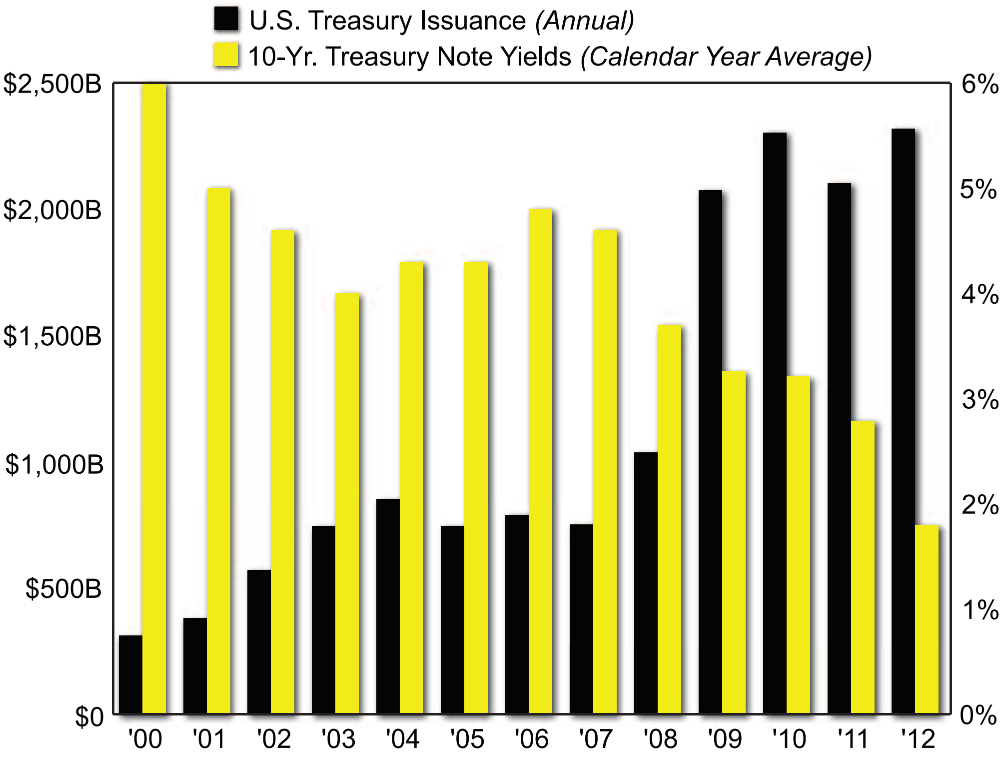
An Eventual Sell-Off In Treasuries Could Sting More Than Just A Bit!

U.S. Treasury Issuance vs. 10-Year Treasury Note Yield



Sources: Thomson Reuters and U.S. Treasury

View from the Observation Deck

1. The yield on the benchmark 10-Year T-Note is closing in on the 2.00% mark in today's trading session. That is approximately half its 4.02% average yield from 2000 through 2012, according to Bloomberg.
2. For the first time since it began its quantitative easing initiatives, the Federal Reserve appears to be openly contemplating an exit strategy from its current $85 billion per month bond-buying program.
3. The last time the yield on the 10-Year T-Note closed above the 4.00% level was on 10/14/08. If you look at the chart, total U.S. Treasury issuance surged in 2009, 2010, 2011 and 2012.
4. Normally, when the supply of bonds increases substantially one would expect yields to move higher as well. That did not happen this go around due global growth fears and a sustained intervention by the Fed, in our opinion.
5. A bond's price typically declines as interest rates rise.
6. Using the 10-Year T-Note as a barometer of what could happen if yields were to rise, a 100 basis point increase in its yield (1.95% to 2.95%) would result in a price decline of 8.67%, according to Bloomberg.
7. A 205 basis point increase (1.95% to 4.00%) would result in a price decline of 16.89%, according to Bloomberg.
8. We believe that any investor who purchased Treasuries because of the Fed's bond-buying support should monitor the direction of interest rates and any directives from the Fed in the coming months.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing.