View from the Observation Deck

1. Today’s blog post is an update of one we did on 6/12/12 (“Treasury Returns May Be About To Hit A Wall On Two Fronts”). We have updated the original chart to reflect the rolling 12-month index returns through August 2014.

2. The two fronts we eluded to were the ongoing decline in the yield on the 10-Year Treasury Note and the potential influence that the Fed’s quantitative easing programs were having on keeping interest rates artificially low.

3. Back in 2012, we were discussing the impact of the Fed’s second round of quantitative easing (“Operation Twist”). As we now know, the Fed initiated a third round (QE3) of bond buying, which it intends to shutdown in October.

4. In 2012, we also noted the downward pressure, via a flight to quality event, that the European Union’s sovereign debt crisis was having on Treasury rates.

5. While the crisis has abated, geopolitical events (Russia/Ukraine conflict) and a slow grow economic recovery in Europe are still contributing to the low-rate climate in the U.S., in our opinion.

6. The yield on the benchmark 10-Year Treasury Note stood at 2.40% on 9/3/14. If interest rates move higher, as they did in 2013, investors holding Treasuries will have a tough time generating positive total returns, in our opinion.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The Barclays U.S. Treasury: Intermediate Index includes all publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have $250 million or more of outstanding face value.