The Real Rate of Return on the 10-Year Treasury Note is back to Zero

Historical Real Rates Of Return On 10-Yr. Treasury Note (T-Note)

Year	10-Yr. T-Note (Year-End & 6/29/18)	CPI YoY (Year-End & 6/29/18)	Real Rate (Yield-CPI)
As of 6/29/18	2.9%	2.9%	0.0%
2017	2.4%	2.1%	0.3%
2016	2.5%	2.1%	0.4%
2015	2.3%	0.7%	1.6%
2014	2.2%	0.8%	1.4%
2013	3.0%	1.5%	1.5%
2012	1.8%	1.7%	0.1%
2011	1.9%	3.0%	-1.1%
2010	3.3%	1.5%	1.8%
2009	3.8%	2.7%	1.1%
2008	2.2%	0.1%	2.1%
2007	4.0%	4.1%	-0.1%

Source: Bloomberg. 10-Yr. T-Note yields are rounded. CPI rates are measured year-over-year (YoY) and are not seasonally adjusted. Past performance is no guarantee of future results.

View from the Observation Deck

1. The real rate of return on a bond is calculated by subtracting the most recent inflation rate, such as the Consumer Price Index (CPI), from the bond's current yield. The higher the real rate the better.

2. As of the close of 6/29/18, the yield on the benchmark 10-year T-note was 2.86% (2.9% rounded), which matched the 2.9% year-over-year (YoY) rate on the CPI in June 2018. That equates to a real rate of 0.0%.

3. The CPI YoY rate rose significantly, from 2.1% to 2.9%, in the first half of 2018. For comparative purposes, from 1926 through June 2018, the CPI YoY rate averaged 3.0%, according to Bloomberg.

4. Including the initial rate hike on 12/16/15, the Federal Reserve has raised its federal funds target rate (upper bound) seven times, from 0.25% to 2.00%, or an increase of 175 basis points (bps). Over that same period, the yield on the 10-year T-note rose just 56 bps, according to Bloomberg.

5. With inflation on the rise, we believe bond investors are likely going to have make a judgement call relatively soon as to whether, or not, they believe that U.S. economic growth will accelerate in the coming months. After all, that was one of the primary goals behind the drafting of the Tax Cuts and Jobs Act (December 2017).