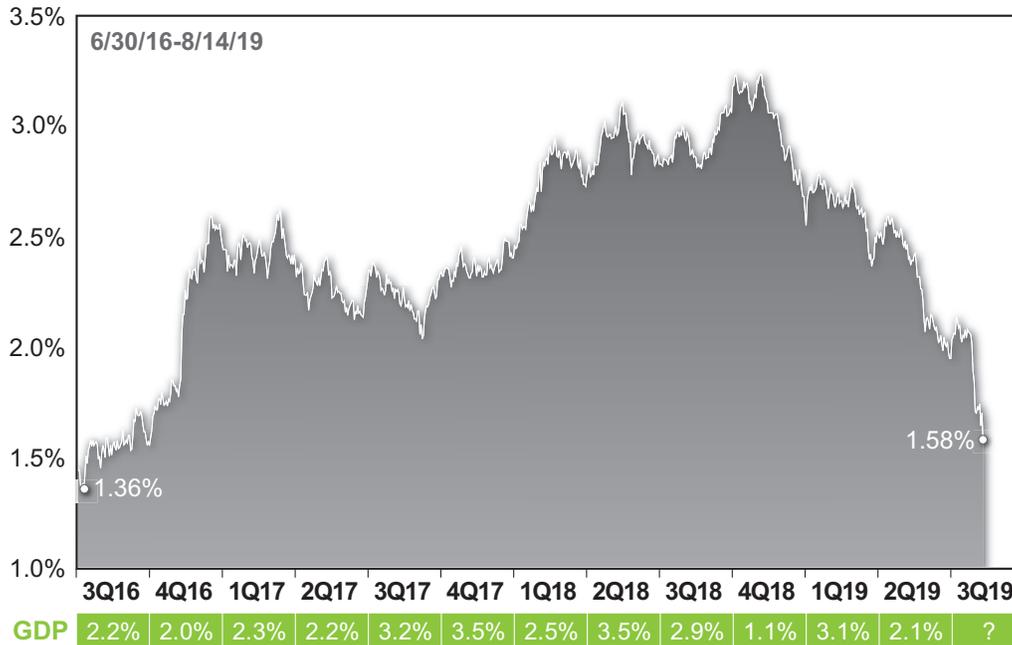


Some Perspective On The Drop In Bond Yields

10-Year Treasury-Note Yields vs. U.S. Real GDP (Annualized Rates)



Source: Bloomberg and Bureau of Economic Analysis.
Yields are daily closes. GDP in U.S. chained 2012 dollars (QoQ SAAR).

View from the Observation Deck

1. Today's chart captures the fluctuation in the yield on the 10-year Treasury-note (T-note) since it closed at an all-time low of 1.36% on 7/8/16. It closed yesterday's trading session at 1.58%.
2. In light of all of the discussion about how inverted yield curves have been a good predictor of past recessions in the U.S., we've included quarterly GDP growth rates for the period featured in the chart.
3. As of the close on 8/14/19, the yields on the 2- and 10-year T-notes, which are commonly used to measure the slope of the yield curve, both stood at 1.58%, according to Bloomberg.
4. The Federal Reserve ("Fed") cut the federal funds target rate (upper bound) from 2.50% to 2.25% at its most recent meeting in July. Prior to that meeting, it had raised the rate from 0.50% in June 2016 to 2.50% in December 2018.
5. The Fed had been tightening monetary policy because U.S. economic activity was accelerating. Take a look at the GDP figures in the chart from Q3'17 through Q3'18.
6. Now look at the rise in the yield on the 10-year T-note from Q3'17 through Q3'18. From 9/29/17-9/30/18, the yield increased 73 basis points from 2.33% to 3.06%. It eventually peaked at 3.24% on 11/8/18.
7. At that time, the financial media was reporting that interest rates and bond yields were normalizing. So, what changed?
8. We believe it has to do primarily with the escalation of the U.S.-China trade conflict, which is at 17 months and counting. The lack of guidance with respect to when a deal may be reached is motivating some investors to funnel capital into bonds, and that is what is largely driving yields lower, in our opinion. Stay tuned.

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.

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