The Real Rate of Return on the 10-Year Treasury Note is Negative

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

Year	10-Yr. T-Note (Year-End & 9/30/20)	CPI YoY (Year-End & 9/30/20)	Real Rate (Yield-CPI)
As of 9/30/20	0.7%	1.4%	-0.7%
2019	1.9%	2.3%	-0.4%
2018	2.7%	1.9%	0.8%
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%

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 9/30/20, the yield on the benchmark 10-year T-note was 0.69% (0.7% rounded), essentially half the 1.4% trailing 12-month rate on the CPI in September 2020 (most recent rate available). That equates to a real rate of -0.7%, which is not attractive, in our opinion.
3. At a base level, in order to maintain one's purchasing power, bond investors have sought to generate a yield that at least outpaces the rate of inflation.
4. For comparative purposes, from 9/30/90 through 9/30/20 (30 years), the average yield on the 10-year T-note was 4.3% (rounded), while the average rate on the CPI stood at 2.4%, according to Bloomberg. Those figures translate into an average real rate of return of 1.9%, far more attractive than currently available.
5. In September, the Federal Reserve ("Fed") stated that it expects to hold short-term interest rates near zero until two things happen: (1) the U.S. unemployment rate is back to normal (around a 4.0% unemployment rate), and (2) inflation is running at or above 2.0%.
6. Brian Wesbury, Chief Economist at First Trust Advisors L.P., notes that the Fed does not expect to achieve both goals until 2024.
7. We believe that one of the Fed's motivations in promoting a multi-year commitment to a near zero interest rate monetary policy is to incentivize risk-taking, and that extends to the bond market.