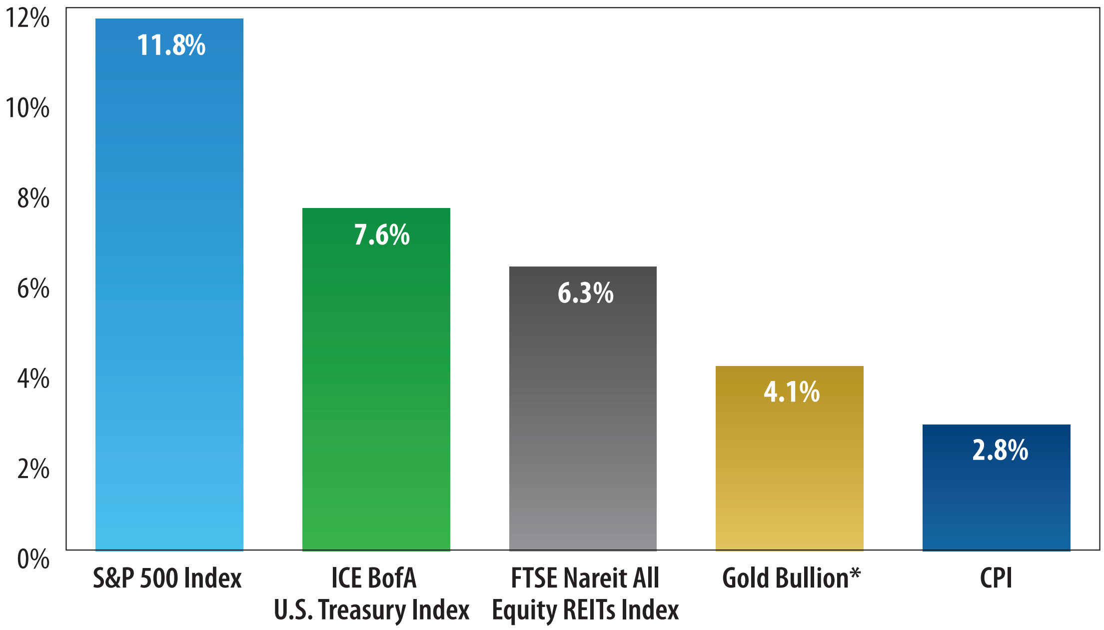
September 30, 1981

Average Annualized Total Returns & Consumer Price Index (CPI) *(9/30/81-8/4/20)*



Source: Bloomberg. *Gold bullion reflects an average annualized price return. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. The yield on the benchmark 10-year Treasury note (T-note) closed trading on 9/30/81 at an all-time high of 15.84%, according to data from Bloomberg.
2. Nearly 39 years later, the yield closed trading on 8/4/20 at an all-time low of 0.51%. From 9/30/81 through 8/4/20, the yield on the 10-year T-note declined by 15.33 percentage points.
3. Today, we would like to take investors back to a simpler time when asset allocation focused on just four major asset classes: stocks, government bonds, real estate and gold. These four basic asset classes were somewhat analogous to the four basic food groups approach to a proper diet: fruits and vegetables, meat, dairy and grains.
4. As indicated in the chart above, stocks outperformed the other three major asset classes and all four comfortably outpaced inflation, as measured by the Consumer Price Index (CPI).
5. Obviously, the current interest rate and bond yield climate is 180 degrees different than back in 1981. Today, due to what appears to be a strengthening U.S. economy, investors are facing down the proposition of rising bond yields, at least in the Treasury market.
6. From 8/4/20 through 2/16/21, the yield on the 10-year T-note rose from 0.51% to 1.32%, or an increase of 81 basis points, according to Bloomberg. To lend some additional perspective as to where yields stand, the 1.32% close on 2/16/21 was 19 basis points below its 1.51% close on 1/31/20, just prior to the onset of the COVID-19 pandemic.
7. The rise in the yield on the 10-year T-note has already begun to generate headwinds for two of the asset classes in the chart. From 8/4/20 through 2/16/21, the ICE BofA U.S. Treasury Index posted a total return of -4.3% and the price change on an ounce of gold bullion was -10.2%, according to Bloomberg. On the other hand, the S&P 500 Index and FTSE Nareit All Equity REITs Index have fared quite well, posting total returns of 20.0% and 9.4%, respectively.
8. Click here to see our recent post on the relationship between inflation and stocks over time.