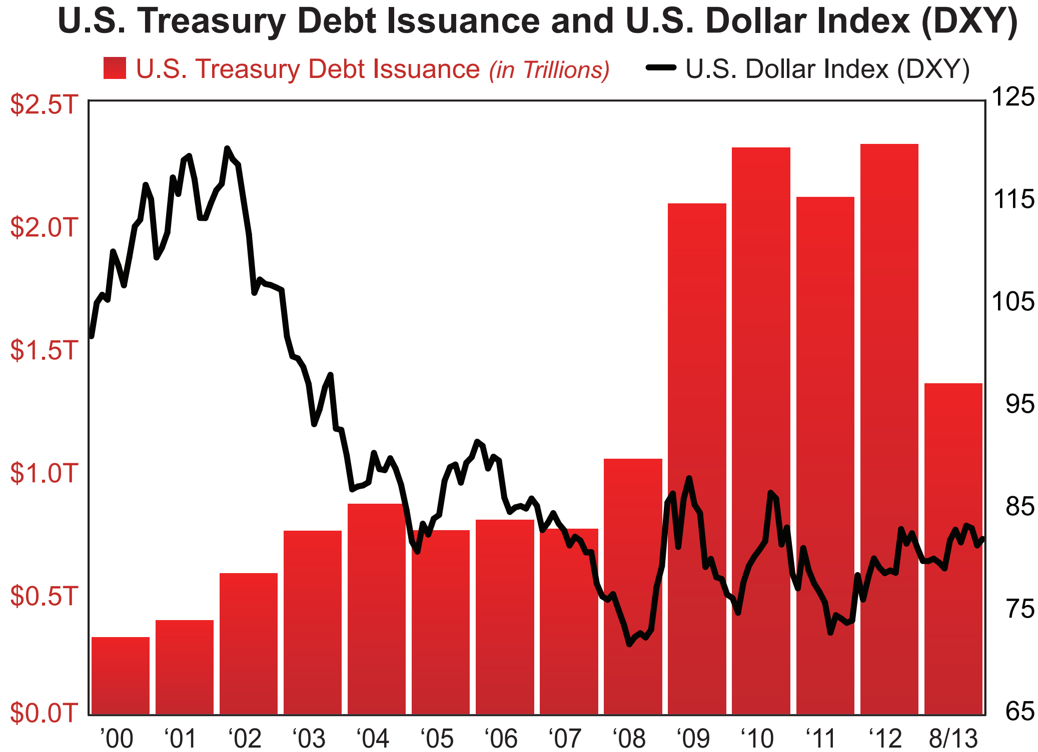
New Millennium Accompanied By Surge In U.S. Treasury Issuance & Weakness In U.S. Dollar



Sources: Thomson Reuters, Treasury Department and Bloomberg.

View from the Observation Deck

1. U.S. Treasury debt issuance surged 535.8% from 12/31/99 through 12/31/12. In 2013, issuance is on pace to exceed $2.0 trillion for the fifth consecutive year.
2. The U.S. Dollar Index (DXY) declined by 21.7% from 12/31/99 through 12/31/12. In 2013, the index was essentially unchanged, up 0.6%, through 9/30.
3. While the current shutdown of most federal government agencies is garnering much of the media's attention, the picture in the chart is the story behind the story for investors, in our opinion.
4. Why is this so? Begin with the fact that the Federal Reserve has publicly disclosed its intent to begin tapering its stimulus efforts sooner than originally expected.
5. The Fed's ambitious quantitative easing (QE) efforts, which began with the first QE announcement in November 2008, have been successful in keeping interest rates artificially low.
6. What happens to the cost of servicing the debt in the future if interest rates normalize? The current yield on the 3-Year T-Note is around 0.67%, significantly below its 2.89% average from 12/31/99-12/31/12.
7. With respect to new issuance, the average maturity of the bonds issued in Fiscal Year 2012 (FY ends in September) was 3.94 years, according to the U.S. Treasury Department. What if the federal deficit continues to grow?
8. Due largely to the sovereign debt crisis in Europe, the U.S. caught a break in August 2011 when Standard & Poor's downgraded its sovereign credit rating from AAA to AA+, in our opinion.
9. The U.S. bond markets did not experience a sell-off following the downgrade, as one would have expected. Investors should prepare for higher interest rate levels in the years ahead.
10. We have been saying for years that Corporate America is lean and mean, while the federal government is bloated and dysfunctional. We favor stocks over bonds over the next 12-24 months.

This chart is for illustrative purposes only and not indicative of any actual investment.

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