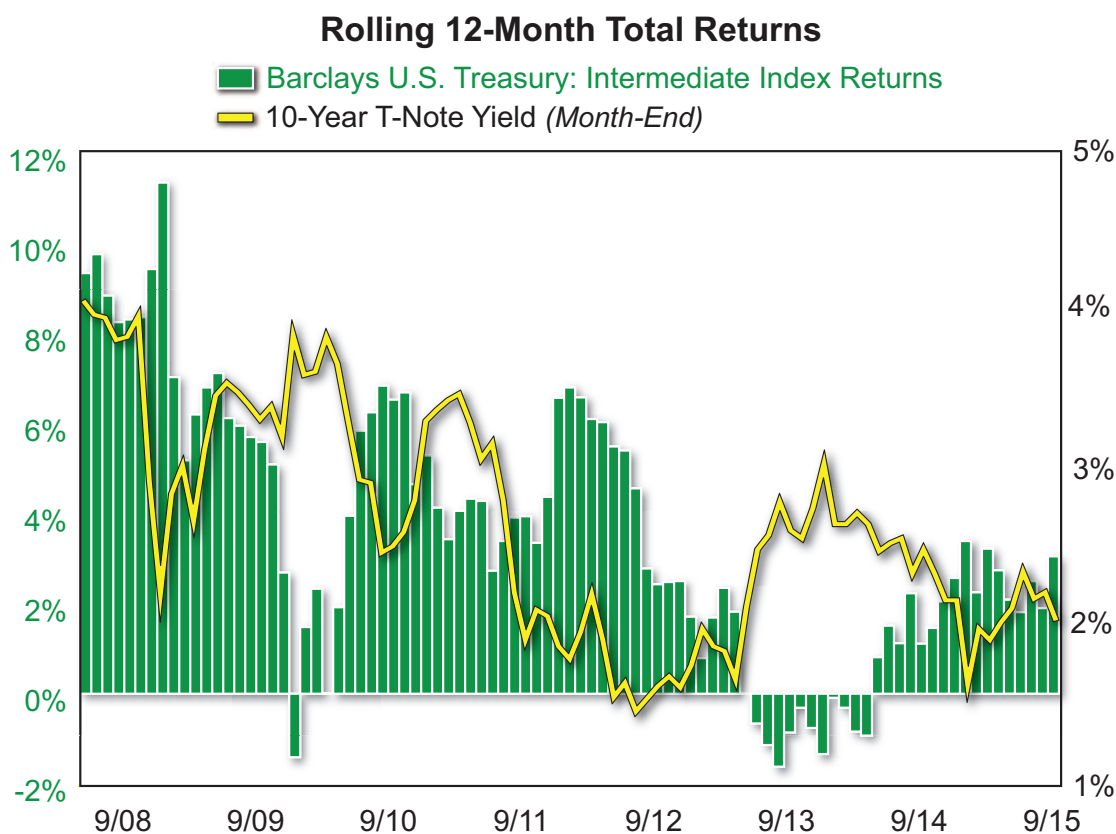


Just When You Thought It Was Over...



Sources: Barclays & Bloomberg. Data from 5/08 through 9/15.

View from the Observation Deck

1. Today's blog is the third version of a post we originally did on 6/12/12, which depicted the rolling 12-month total returns of an index comprised of intermediate-maturity Treasuries.
2. The premise of the posts has always been to show bond investors how the multi-year, low interest rate climate in the U.S. could eventually result in diminished, or even negative total returns, once interest rates trended higher.
3. We thought our mission was accomplished in 2013 when the yield on the benchmark 10-Year Treasury Note rose from 1.76% (12/31/12) to 3.03% (12/31/13) – an increase of 127 basis points. (see chart)
4. A combination of the Federal Reserve's decision to delay its first federal funds target rate hike since 2006, low inflation and slower global growth, largely driven by China, breathed life back into the Treasury market, in our opinion.
5. Foreign investors held \$6.2 trillion of U.S. government debt at the close of June, an all-time high, according to CNNMoney. From a global perspective, the U.S. is widely regarded as a safe haven.
6. We remind investors that the Fed has not abandoned the notion of raising short-term lending rates. It's just on hold. Again.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The Barclays U.S. Treasury: Intermediate Index includes all publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have \$250 million or more of outstanding face value.