The Real Rate Of Return On The 10-Year Treasury Is Real Low

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

Period	10-Yr. T-Note (Avg. Yield)	CPI Headline (Avg.)	Real Rate (Yield-CPI)
1965-1969	5.3%	3.4%	1.9%
1970-1974	6.8%	6.1%	0.7%
1975-1979	8.2%	8.1%	0.1%
1980-1984	12.4%	7.6%	4.8%
1985-1989	8.8%	3.6%	5.2%
1990-1994	7.3%	3.7%	3.6%
1995-1999	6.1%	2.4%	3.7%
2000-2004	4.8%	2.6%	2.2%
2005-2009	4.1%	2.6%	1.5%
2010-2014	2.5%	2.0%	0.5%
2015-4/17	2.0%	0.9%	1.1%

Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. As of the close of 4/28/17, the yield on the 10-Yr. T-Note was 2.28%, while the trailing 12-month Consumer Price Index (CPI) headline rate stood at 2.40%, according to Bloomberg.
2. That translated into a real rate of return (yield-inflation) of -0.12%. From 1965 through April 2017, the average real rate was 2.41% (6.41% avg. Yield - 4.00% avg. CPI), according to Bloomberg.
3. Keep in mind, the negative real rate of return proposition on 4/28/17 did not factor in any potential tax consequences.
4. The Federal Reserve has raised its federal funds target rate (upper bound) three times (25 basis points each) since December 16, 2015. As of 5/8/17, the futures market put the probability of another Fed rate hike at 100% for the June 2017 meeting, according to Bloomberg.
5. While we do not know how many times the Fed is going to raise its benchmark lending rate during this tightening phase, we do know that it raised rates 17 times for a total of 425 basis points from June 2004 through June 2006 – its last tightening phase, according to Bloomberg.
6. It will be interesting to see if the yield on the 10-year T-note trends higher with future Fed rate hikes and/or higher inflation rates. To get to the 2.41% average real rate since the start of 1965, factoring in the CPI rate of 2.40% in April 2017, the 10-year T-note would have needed to yield 4.81% on 4/28/17. The last time the yield approached the 4.00% level was over seven years ago on 4/5/10 (3.99%), according to Bloomberg.

The chart and performance data referenced are for illustrative purposes only and not indicative of any actual investment.