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

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

Year	10-Yr. T-Note (Year-End & 4/6/21)	CPI YoY (Year-End & 2/28/21)	Real Rate (Yield-CPI)
As of 4/6/21	1.7%	1.7%	0.0%
2020	0.9%	1.4%	-0.5%
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. **Past performance is no guarantee of future results.**
10-Yr. T-Note yields are rounded. CPI rates are measured year-over-year (YoY) and are not seasonally adjusted.

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 4/6/21, the yield on the benchmark 10-year T-note was 1.66% (1.7% rounded), matching the 1.7% trailing 12-month rate on the CPI in February 2021 (most recent rate available). That equates to a real rate of 0.0%, 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 4/6/91 through 4/6/21 (30 years), the average yield on the 10-year T-note was 4.2% (rounded), while the average rate on the CPI stood at 2.3% from 2/28/91 through 2/28/21, 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 2020, 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%. The Fed has remained steadfast in its guidance despite the 115 basis point surge in the yield on the 10-year T-note since 8/4/20 (all-time low of 0.51%).
6. Fed Chairman Jerome Powell commented on 3/24/21 that he is not concerned about the rise in bond yields because he believes it reflects growing optimism about the economy's prospects, according to *The Wall Street Journal*.

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