The Real Rate of Return on the 10-Year Treasury Note Posts Sharp Decline

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

Year	10-Yr. T-Note (Year-End & 6/25/21)	CPI YoY (Year-End & 5/31/21)	Real Rate (Yield-CPI)
As of 6/25/21	1.5%	5.0%	-3.5%
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 on 6/25/21, the yield on the benchmark 10-year T-note was 1.53% (1.5% rounded), well below the 5.0% trailing 12-month rate on the CPI in May 2021 (most recent rate available). That equates to a real rate of -3.5%, which is not attractive.
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 6/25/91 through 6/25/21 (30 years), the average yield on the 10-year T-note was 4.14% (4.1% rounded), while the average rate on the CPI stood at 2.3% from 5/31/91 through 5/31/21, according to Bloomberg. Those figures translate into an average real rate of return of 1.8%, far more attractive than currently available.
5. On 6/16/21, the Federal Reserve ("Fed") announced that interest rate hikes could happen as soon as 2023, modifying its earlier stance in March calling for no rate hikes until at least 2024, according to CNBC. The Fed also raised its headline inflation estimate for 2021 from 2.4% in March to 3.4%. It offered no official guidance on when it might begin tapering its $120 billion ($80 billion in Treasuries + $40 billion in mortgage-backed securities) monthly bond buying program.
6. Fed Chairman Jerome Powell continues to say that the sharp rise in inflation of late will prove to be transitory. Powell cites the sharp decline in lumber prices over the past month as support for his guidance. Stay tuned.

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

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.