Trust & Investment Management Group

10-Year Treasury Bond Yield Chart 1970-2020

Source: Macrotrends

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"There's something bad in everything good and something good in everything bad."

– Michael Lewis, author.

Interest rates are at a generational low today. More like a two generational low if we are counting correctly, but what's an extra twenty-five years among friends?

When we talk about interest rates, we usually reference the 10-year U.S. Treasury Bond yield. Most lending rates such as certificates of deposits, mortgages and auto loans are anchored to the absolute level and directional changes in the 10-year Treasury.

As you can see in the chart above, the 10-year U.S. Treasury Bond yield rose from 4% in the 1960s to over 15% in 1981 and sits today at a meager 0.8%. The downward trend is the result of a steady series of monetary policy easing moves by global central banks, including the U.S. Federal Reserve.

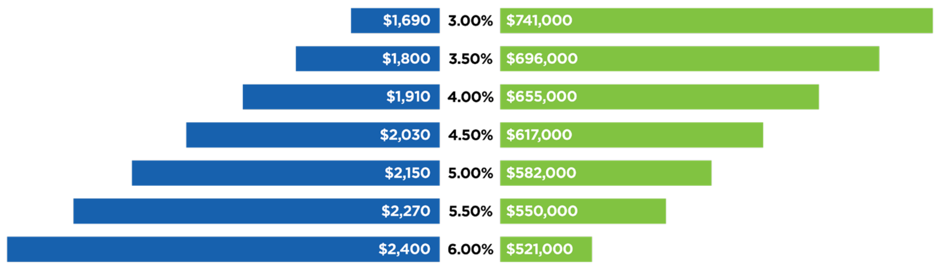
Low interest rates impact the calculus of just about any good or service that can be bought or sold at an agreed upon clearing price. This includes residential homes, office building rentals, used cars, gas at the pump, money markets, CD yields, individual stocks, global currencies and so much more.

Low rates also affect the value and expected life span of huge pools of money that sit in big trust funds such as Social Security, Medicare, government and corporate pension funds and university endowments.

So while Chevy Chase's *Fletch* character in the 1980's wisely stated under his airplane mechanic disguise, "Aww c'mon guys, it's all ball bearings nowadays", the reality of our current times is that it's now all about interest rates.

Effects of Interest Rates Based on 30-Year Fixed

(With 20% Down)



Source: locationshawaii.com

The most common and visible negative for investors (or savers) is the loss of yield on your "safe" money. For example, a $100,000 investment in a 10-year Treasury note at this week's prices would yield about $800 in income over the next 12 months. At the start of 2020, the same $100,000 investment would have earned $2,500 in annual interest income.

This presents a conundrum for investors. One potential choice is to move out on the risk curve in search of higher yields.

Similar to your Amazon Prime long and never ending choices of "other items you may be interested in", Wall Street has developed a lengthy list of "bond-proxies" or "yield plays" for you to scroll through and consider for more attractive returns.Your menu might include sub-asset classes like high dividend paying stocks, high yield bonds, emerging market bonds, fixed rate annuities, whole life insurance policies, master limited partnerships, real estate investment trusts and a bunch of other "stuff".

Warren Buffett was asked about this challenge for individual and institutional investors during a CNBC interview last February. Mr. Buffett stated, "Reaching for yield is really stupid. But it is very human. People say, 'well, I saved all my life and I can only get 1%, what do I do?' You learn to live on 1%, unfortunately."

This is not to say you do not have license to be creative and take some risks in your own portfolio in search for better returns. You just need to own the idea that in investing, like life, there is no such thing as a free lunch. Higher yield usually means higher risk, especially in liquid markets that are heavily watched by many participants around the globe. Buyer beware.

The impact of low rates for borrowers is generally a positive, but there is a natural temptation for lifestyle creep when we are considering large fixed purchases like a new home or car. Your monthly payments can be stretched farther with interest rates so low, but this can incentivize consumers to increase their debt levels based on attractive spreadsheet math. Your future self may get very angry and grumpy with your current self because you now own a more leveraged personal balance sheet that leaves less margin for error if you hit a financial speed bump. Never upset your future self.

To conclude, many are frustrated and confounded by today's low interest rate environment. But unless your name is Jerome Powell or Christine Lagarde, you do not possess any superpowers to make things different, and you may need to adjust your financial plan and make the best of things for your own circumstances.

The late Maya Angelou eloquently stated, "If you don't like something, change it. If you can't change it, change your attitude." Here's to a positive outlook, a hope for higher yields in the future, and a whole lot of patience as we work through a once in a generation (or two) time period.

For more information regarding historical interest rates visit: https://www.macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart

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