

How low can we go?

Interest rates on US Treasury notes hit a record low yield of 1.44% at the beginning of June before moving back up into a range between 1.56% and 1.68% for the rest of the month. Ask yourself why you would voluntarily loan money to our government for ten years at these interest rates. Crazy right?

Maybe, but we have now seen a breakout back down toward that record low level. The signal from investors is that return OF capital is more important right now than return ON capital. They don't trust the stock market and they don't believe that interest rates will go significantly higher any time soon. They might not make much money in bonds but they believe they have less risk of losing money.

To put things in context, short-term German government interest rates are actually **negative** right now. Savers are paying a premium for Angela Merkel's guarantee.

No one knows how long this will last. Our tactical strategies own a combination of cash, bonds and REITS. It's all about yield and playing defense. It feels a lot like July of last year, before the equity markets crashed in August. Déjà vu?

