Long-Term Rates Are Creeping Higher

What's fueling the rally?

Provided by DSA Financial Group

With all the election chatter and stock market volatility, it may have been easy to miss the ongoing uptrend in long-term interest rates.

The yield on the 10-year Treasury bond is sitting just below 1%. Just a few short months ago, the 10-year was yielding roughly 0.5%.[1]

What's fueling the rally? More demand for money, which is the result of a pickup in economic activity. When businesses see economic conditions improving, they look to expand their operations. When entrepreneurs see exciting new opportunities, they look to raise money to finance their projects.[2]

By contrast, a weaker economy tends to promote a "flight to quality," which increases the demand for treasuries and drives yields lower.[3]

Will interest rates continue to go higher? That's uncertain. Rates fluctuate, and there's a possibility that long-term interest rates may reverse course and start to trend lower. A lot will depend on business confidence in the months ahead.

With rates ticking higher, some people may wonder if it's an opportunity to boost bonds' exposure to capture the higher rates. It's a good thought, but you can consider many factors before boosting the bond portion of an allocation model, including the outlook for inflation, the dollar, and other macroeconomic factors.

Raymond Dahlman may be reached at 281-724-8181, 8310 South Valley Hwy, Suite 300, Englewood, CO 80112 or r.dahlman@dsafinancialgroup.com.

www.dsafinancialgroup.com

Citations

1. Yahoo.com, November 2, 2020
2. Manhattan Institute for Public Policy, 2020
3. Investopedia.com, June 25, 2019