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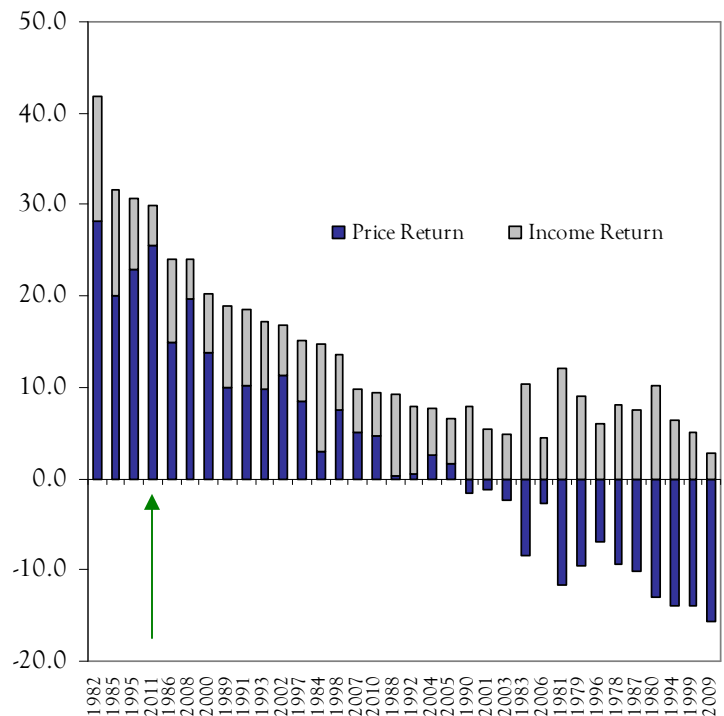
“Long Bond” Surprise

Perhaps the biggest bond market surprise of 2011 was the outsized return of the “Long Bond” - the nickname traders give to the 30-Year Treasury Bond. The adjacent chart lists the total returns (price return plus income) of the Long Bond every year back to 1978. 2011’s approximately 30% return was the fourth highest on record. In fact, the Long Bond’s price return in 2011 was the second highest over that period, as higher total returns in 1985 and 1995 were driven by higher yields.

Few investors, including us, anticipated 30%+ returns for long-term Treasuries last year. The results were particularly surprising coming off an already low interest rate base. The question today is: Should investors be positioned for a repeat in performance for the Long Bond?

The short answer is “No.” While we do not see an immediate impetus for interest rates to rise from today’s low levels, it would be equally surprising to see a repeat of 2011’s collapse in rates. At a 3.11% current yield, the prospective returns for Long-Term treasuries are quite modest, creating an unattractive risk/reward profile for this sector.

Calendar Year Results for 30-Year Treasury Bond



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