Why Aren't US Bond Rates Higher?

By: www.ProfitableInvestingTips.com

We are waiting for the Fed to raise interest rates in March in order to bring down the worst inflation in 40 years. Typically this is when we should be seeing US bond rates go up. People locking their money into 30-year Treasuries ought to be looking for a better interest rate than the current 2.12%. Why aren't US bond rates higher? One answer lies with the potential for an invasion of Ukraine and others lay with the continuing Covid-19 pandemic. When there is the potential for bad trouble in the world there is a flight to safe haven investments and the ultimate safe haven has been US Treasuries.

Potential Fallout From the Ukraine Crisis

Should Mr. Putin decide to send troops across the border into Ukraine he will trigger a host of repercussions. There will be immediate sanctions such as excluding Russia from the SWIFT system for transferred money from bank to bank and freezing Russian assets in Western banks. If fighting involves oil and gas pipelines transiting Ukraine, European access to oil and gas could be interrupted. In fact, Russia could use such a cutoff as a weapon against Europe if they stand against an invasion. The price of oil would likely skyrocket in such a case. NATO is already beefing up forces on the borders of Russia and Ukraine and this would likely increase significantly should Russian tanks roll into Ukraine. The USA, UK, and others are already sending arms such as Javelin anti-tank missiles into Ukraine although not to the front lines. These are details. The bottom line is that a full-fledged Russian invasion would be a major geopolitical shock that would affect economies and investments far and wide.

What Will the Crazy Guy in North Korea Do Next?

North Korea is launching missiles again. If it were not for Russia threatening to bring back the Cold War or even an all-out armed conflict in Europe, the news cycle would be obsessed with this. They are sending up medium range ballistic missiles as well as advanced cruise missiles. The usual reason their crazy-like-a-fox leader does this is to wring concessions like money, food, or the lifting of sanctions from South Korea and the USA. The problem is that this sort of thing can get out of hand and lead to an armed conflict on top of what is going on with Russia and Ukraine.

Inflation Expectations

The worst inflation in forty years should be spooking those who buy bonds. We would think that bond buyers would demand higher rates for a 30-year Treasury. The rush to safe haven investments may be part of what is keeping rates down. Another might be that many understand that a big part of today's inflation is due to the supply chain nightmare and Covid-19. As such, that part of inflation may resolve itself in the nearer term and may not need to be factored into 30-year expectations. And, for that matter, there is the chance that the Fed's move to tame inflation could overshoot and cause a recession and lower interest rates!

Historical Rates for 30-Year Treasuries

After the inflation-ridden 1970s the rate for a 30-year Treasury reached 14.8% in September of 1981. This was when Volcker drove short term rates up to fight inflation. The 30-year rate fell but peaked again at 13.46% in 1984. From there the 30-year rate has steadily declined with peaks of 8.85% in 1987, 7.74% in 1994, 6.69% in 2000, 5.19% in 2007, 3.64% in 2014, and 2.35% in 2021 to arrive at 2.12% at the start of 2022. The world has gotten used to lower yields on the 30-year Treasury. The Russia-Ukraine issue will eventually quiet down. The North Korea leader will no longer be in the news. And, Covid-19 will quit shutting things down. Then the economy will grow, interest rates will go up, the US will have to contend with higher interest rates to service its debt, and the rates on the 30-year treasury will reverse their multi-year downward course.

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