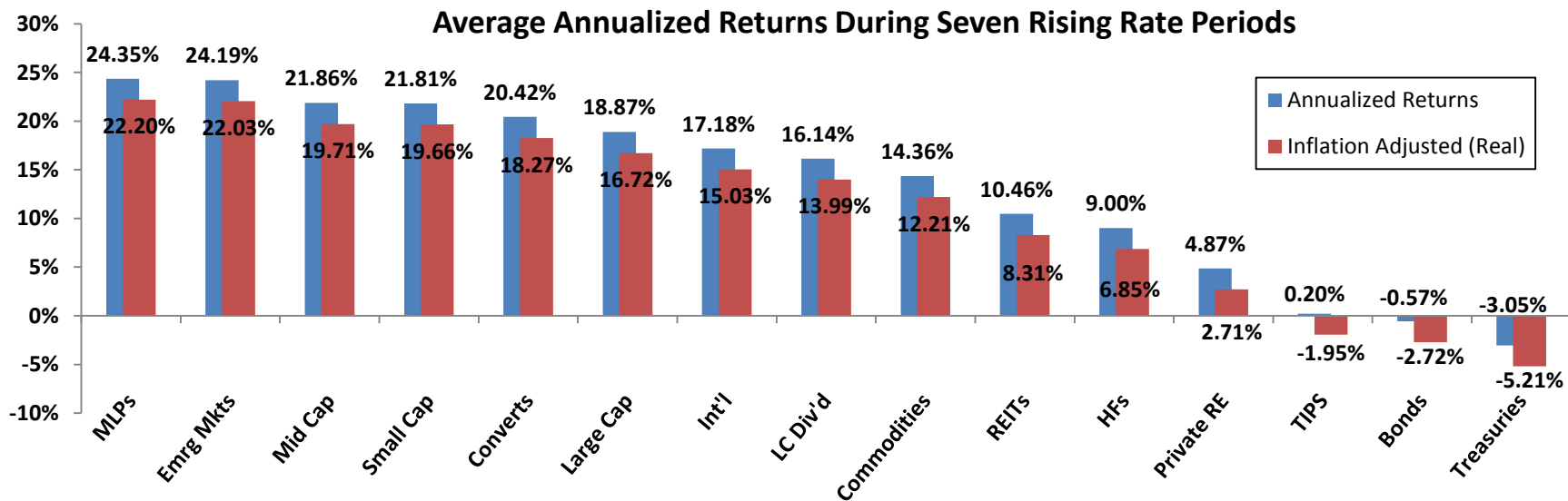


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How Rising Interest Rates Influence Asset Classes

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The current market environment has kept the 10-year treasury rate hovering between 2.5% and 2.7%, in spite of the Fed slowly dialing back the monthly purchases of bonds and mortgages. With the Fed moving away from supporting bond prices, it is expected that interest rates will slowly begin to rise. So what does that mean for other asset classes and how they may perform in a rising rate environment?



During the past 20 years, there have been seven periods of 5 months or more in which interest rates of the US 10 Year Treasury Note have trended higher by at least 90 bps (.90%). During those periods, the US Treasury market averaged an annualized loss of -3.05%, as gauged by the Barclays Treasury index, and a real annualized loss of -5.21%, when you take into account the annualized rate of inflation.

It is important to note that during the past 20 years the rate of inflation has averaged a mere +2.40%. The above observations do not take into account periods of severe inflation rates, as were prevalent in the 1970s.

