Outlook 2021: Bond Prices

Information you should know.

Provided by Scott E. Holstein, CPA, PFS, CFP®

The 10-year Treasury yield has climbed higher since the New Year, which means that some bond prices are dropping. You may have seen the headlines that say, "10-Year Yields Over 1%."

For some, the first time they experience a change in bond prices is when they open their monthly statement and review their investments.

But before you check your January statement, here is some background that may help put the most recent move in rates in perspective.

The interest rate on the 10-year Treasury dropped steadily in the first half of 2020 and bottomed at 0.54% in late July. While rates remain at historic low levels, the yield on the 10-Year Treasury has doubled in the past six months. That's a significant increase in a relatively short period of time. The recent rally that pushed the yield over 1% has drawn the most attention.[1]

Why are rates going higher? Even with the Federal Reserve holding short-term rates near zero, yields on longer-term bonds can move higher as the economy begins to improve and inflation expectations rise.[2]

Will bond yields keep going higher? A lot may depend on the path of the virus, vaccine distribution, and what's next with additional stimulus money.[3]

Bonds can play an important part in any portfolio, but like any investment, periods of volatility are expected. If you're concerned about the outlook for bonds, or the macro-economic trends behind the bond market's rally, please give us a call. We'd welcome the chance to hear your perspective, and hopefully, we can provide some guidance.

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Citations

1. Finance.Yahoo.com, January 18, 2021
2. CNBC.com, January 12, 2021
3. CNBC.com, January 7, 2021