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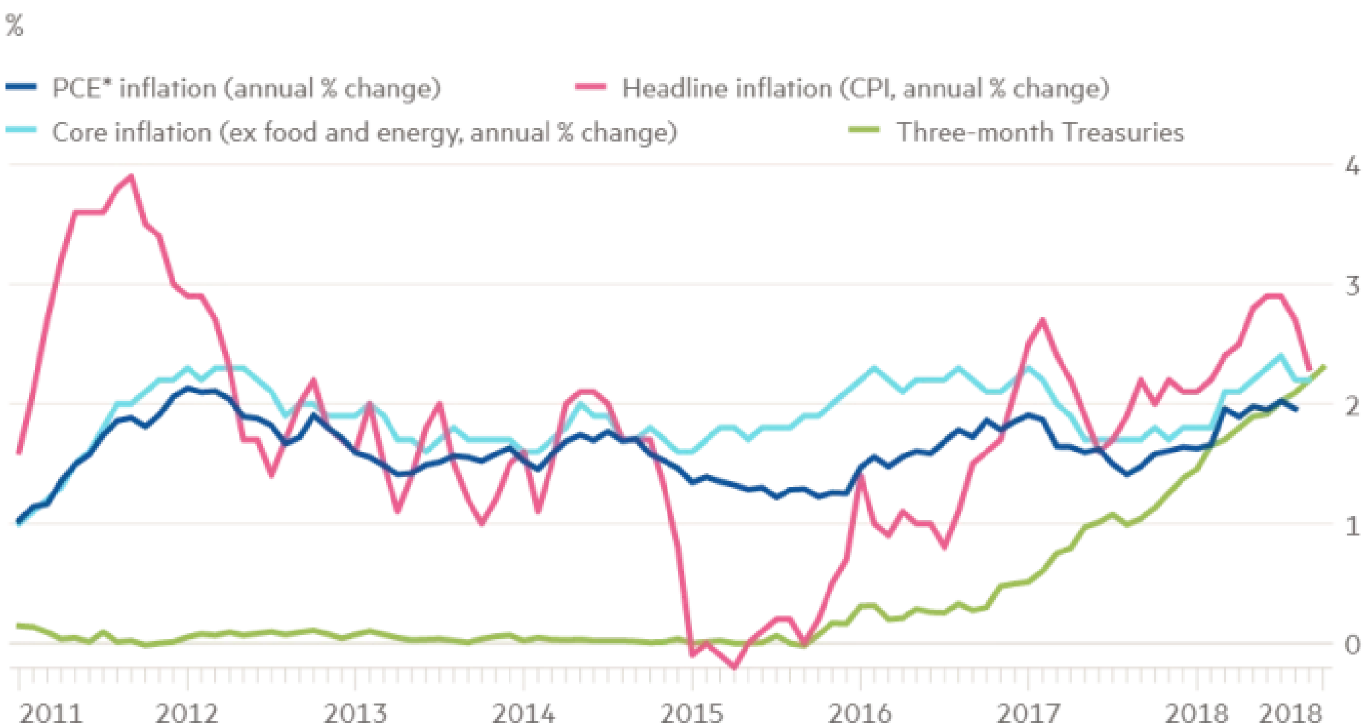
Yield on short-term Treasury bills tops US inflation

Investors can receive a real, inflation-adjusted return from cash for first time in a decade

Robin Wigglesworth in New York OCTOBER 21, 2018

Treasury bill yields vault over US inflation rates for first time since crisis



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Federal Reserve interest rate increases have catapulted the yield of three-month Treasury bills — the global finance industry's closest proxy for hard cash — above all three main measures of US inflation for the first time since the early days of the global financial crisis.

Ultra-liquid short-term Treasury bill yields have clambered to a new post-crisis high of 2.3 per cent, rising above the latest "core" US inflation rate reading in late September and above even the main headline inflation rate last week. Yields climbed above the PCE inflation rate, the Fed's preferred measure, earlier this autumn.

This means that investors can get a real, inflation-adjusted return from cash for the first time in a decade. Treasury bill yields have also climbed well above the S&P 500's dividend yield, undercutting the post-crisis argument that for many investors "there is no alternative" to investing in equities — a thesis often abbreviated to " Tina".

Mark Haefele, chief investment officer of UBS Global Wealth Management, argues that "we are now moving from a Tina market to a Tiara one". Tiara stands for "There is a real alternative".

"The existence of lower-volatility alternatives to equities with positive real returns is now leading some investors to question whether stock market volatility is still worth enduring," Mr Haefele wrote to clients last week. "These concerns came to a head in the recent equity sell-off, which included the worst week for global markets since February."

Aside from when the energy price crash of 2014-15 briefly pushed the US consumer price index (CPI) down into negative territory, this is the first time three-month T-bills have yielded more than the headline inflation rate since 2009.

It is also the first time yields have been over the core inflation rate, which excludes more volatile energy and food prices, since early 2008, and it is the first time short-term bill yields have been above all three of the most commonly tracked inflation measures since the autumn of 2007.

Nonetheless, Mr Haefele urged the Swiss bank's clients to keep faith with equities, given that still-strong US economic growth would keep supporting corporate profits and ensure that stock markets would regain their footing.

"It's important to remember the underlying reason that bond yields are rising: a buoyant US economy," he said. "There is also little sign that higher rates are weighing on the US economy."

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