

## A Lose-Lose Situation for Long-Term U.S. Treasuries

In March, I wrote about the win-win situation for commodities. In an article, I argued that commodities were going to rise whether the economy turns up or down. This time, I am writing about an opposite asset class – long-term U.S. Treasuries. No matter what the economy does, I believe that long-term Treasuries will lose.

As the latest Barron's points out, the 30-year Treasury has fallen 20% year-to-date. Despite this sharp fall, however, the long-dated Treasury is still yielding 4.1%, or about 50% below its average yield between 1977 and the present. Therefore, if the economy shows the slightest sign of recovery, long-term yields are almost guaranteed to rise from the recent lows toward more normal levels. When yields rise, Treasuries fall! No rocket science there!

But then again, with so many structural problems in the world's economy, who really believes that the economy will heal any time soon? So suppose we stay in this trough for a while longer, and suppose the Keynesians continue to rule the world, a likely scenario, the government will spend, spend, and spend even more to get things going again. With dwindling tax revenues, the government will then have to issue more Treasuries to finance new spending. The liability side of the government's balance sheet will then bloat; and debt ratios will deteriorate. Naturally, credit ratings, and hence prices, of U.S. Treasuries will plummet!

Is that how it will end? Not necessarily. There is an alternative, but similarly tragic, ending. The FED may emerge to make a desperate rescue attempt. But we know that this rescue will be in vain, because we have already seen this movie before. Back in March, the FED announced that it was going to buy \$300 billion worth of long-dated Treasuries. Treasuries jumped for a day or two after the announcement, but then they have resumed falling since. And even if the FED succeeds at propping up Treasuries, it will only be because of the printing press. In the end, Treasuries will be repaid with paper that, may not exactly be worthless, but will definitely be worth less. Long-term Treasuries buyers, choose your poison!