INVESTMENT UPDATE
NEWSLETTER

ALLEN TRUST
COMPANY

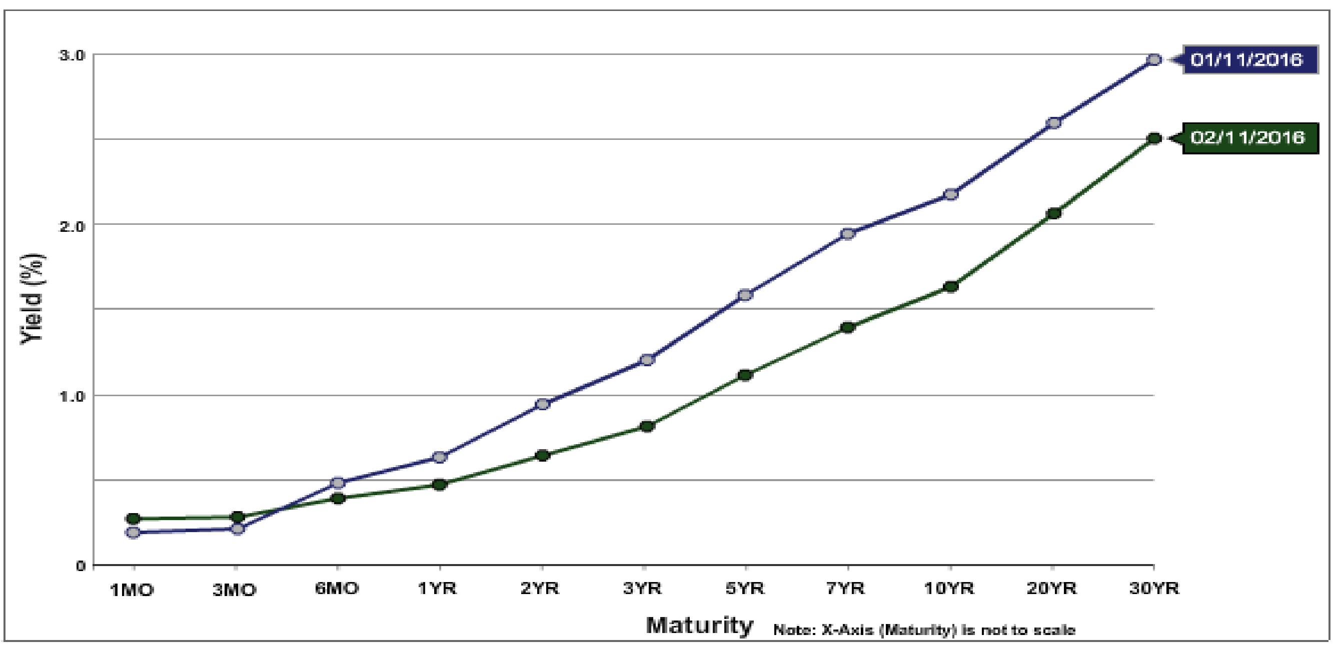
FEBRUARY 15, 2016

Julie Bryan, CFA
Portfolio Manager

The Great Hand Off

The Federal Reserve has done some heavy lifting. While Federal Reserve Chairman Ben Bernanke was able to implement drastic policy measures in 2008 to stave off a potential depression, Federal Reserve Chairwoman Janet Yellen's ability to drive positive economic progress today lies more in influencing the move to a broader policy response to promote stable, inclusive growth. A hand off to fiscal policy action is needed for economic stimulus going forward. Market volatility has picked up partly because of doubt as to whether that hand off will succeed.

Treasury Yield Curve
(source: U.S. Department of the Treasury)



As the chart above shows, Treasury yields have declined even further so far in 2016. What was thought to be close to the bottom on yields just got lower over the last month. Declining interest rates in the United States nevertheless look attractive when compared with interest rates in Japan or Germany (ten year government bond rates approximate 8 basis points in Japan, and 26 basis points in Germany) and yet this transitionary phase must end as the reach toward negative rates ultimately undermines the long-term financial interest of bond holders. Moreover, falling rates suggest economic headwinds to growth in corporate earnings. Monetary policy filled the gap in 2008. Fiscal policy should now.