

March 26, 2010
Bullet Points

- Smart investors will listen when Alan Greenspan calls the unexpected rise in Treasury yields the “canary in the mine” that will likely signal further increase in interest rates.
- The Fed has no control over this. These yields are set by the market and its concern over the “huge (and growing) overhang of federal debt.
- Ultimately this will impact the credit worthiness of Treasuries resulting in a credit down grade and loss of our coveted AAA rating.
- This is not too farfetched. Projecting out 10 years our percentage of debt to GNP at 90% approaches that of Greece (100%+).
- Government’s solution to this will be to monetize the debt. All they will need is a pliable Fed Chairman. The current administrations take no prisoners approach to passage of the widely unpopular healthcare bill hints at the methods they are willing to use to get their way.
- As our debt continues to increase and our ability to service it comes into question, credit worthiness will diminish. Investors will demand a higher risk premium to buy out bonds. Yields will go up, prices will go down. Stay in stocks and other assets that will keep pace with this unstated inflationary agenda.