SN Valuation
SN Capital SN Consulting SN English

Sung Nam
December 18, 2012

Fixed Income Weekly Brief

US Treasury 10 year yields at 1.60%. Yields crimping from risk aversion and flight to safety picks up as we approach fiscal cliff deadline. Talks of Korean central bank to raise rates after 3 successive rate cuts as of late. For the short term, buy the 30 year US treasuries as yields decline, boosting prices and will receive an amplified return from higher duration, longer maturity securities. Recent Treasury auction participation was strong, fueling the scramble for safer investments. Once the fiscal cliff hurdle is past, expect less demand for Treasuries so should anticipate a sell off pushing yields back up. One could pick up some short Treasury ETFS to partially hedge the long Treasury, or go with full conviction and take a short position, which we err towards.

The chart compares the Short ETF (Blue) and the Interest rate (Red). If the rate increases, the price of bond decreases. However, since we are shorting the bonds, we will make money with the increase in yield.

Compare the above chart to the chart where the Short ETF (Blue) is an inverse return relative to the Long 20 Year Treasury (Red). The Short ETF is much more reactive and volatile, most likely since it is a leveraged portfolio.