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Four at Four: Turnaround Tuesday

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guess.

- It is indeed an interesting time when investors feel comfortable buying up Treasury securities **even though they're getting what's known as "negative real yields."** In particular, the **Treasury Inflation-Protected securities market** has been a busy one — these securities protect against rising inflation by increasing the size of the principal investment as inflation rises (so a \$100 investment could increase to \$105, for instance, regardless of the yield). Until today, when the market turned around, five-year TIPs had a negative real yield of about minus 0.18%, which implies that a **TIPs investor's semiannual yield payment would decrease from what it was originally.** It suggests, essentially, that investors are willing to give that up in exchange for protection against inflation. Furthermore, five-year TIPs are scarce — John Canavan of Stone & McCarthy Research Associates says there are only about \$14 billion of these securities outstanding. "There's a small amount at a time when inflation expectations are rising and **there's a massive safe-haven bid into Treasuries of all kinds, including TIPs,**" he notes. The economic environment, he says, **"is playing a role in investor willingness to accept negative real rates."**

