US 10-YEAR TREASURY BREACHES HISTORIC LOWS

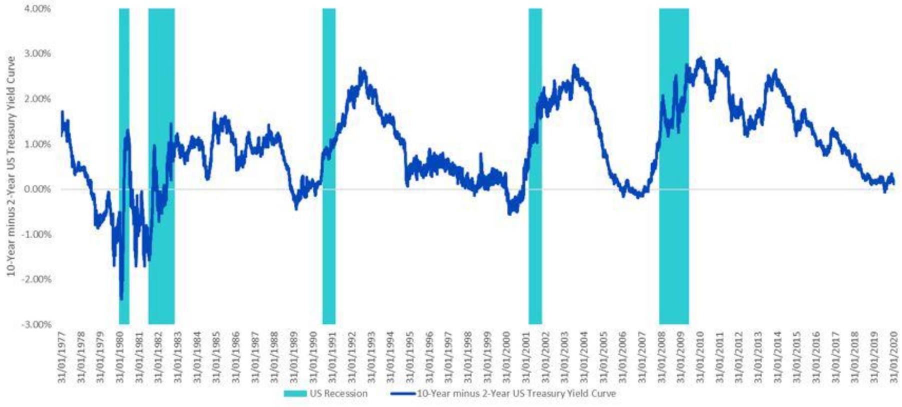
Wisdomtree EU
02 Mar 2020

Last year we witnessed heightened uncertainty as the outcome of Brexit and trade wars weighed heavily on investor sentiment and as a result historically safe-haven assets experienced high demand. As we delve into the middle-half of the Q1 2020, we are faced with a new overarching global concern around the personal and economic impact that the Coronavirus may have this year and this has once again driven strong demand for historically safe haven assets. This time the demand is so high that we are facing a historic moment of new lows for the US 10-year Treasury with intra-day trading at 1.30% on 27 February 2020, surpassing its previous record low set in the summer of 2016[1] . With these levels being reached, one may consider looking to the difference in yield between the 2-year and 10-year US Treasury for further insight into the old barometer of economic health for the US economy. While this barometer was negative as recent as August 2019, we note that it currently stands at positive 13 basis points spread as of 25 February 2020.

As we look for better understanding into this uncertainty, we note that one Congressional Budget Office study originally published on 8 December 2015 prepared an assessment of the possible macroeconomic impact that an avian flu pandemic could pose on the US economy. This study may be able to provide some interesting insight into what could happen if the current widespread virus becomes a global pandemic. As noted in the study, “The assessment concludes that a pandemic involving a highly virulent flu strain (such as the one that caused the pandemic in 1918) could produce a short-run impact on the worldwide economy similar in depth and duration to that of an average post-war recession in the United States.

Meanwhile in the current backdrop, the Dow Jones Industrial Average has been faced with a strong pull back since the 21 February 2020 and the Chicago Board Options Exchange Volatility Index, known as a reference for the stock market's expectation of volatility based on S&P 500 index options, spiked to 27.85 on 25 February 2020 coming down, only slightly, to 27.56 the following day. This may be the markets way of dealing with a great deal of fear and uncertainty but we believe it will be important to continue to keep a close eye on upcoming economic data to take a better view of the economic standing of the global economy.

10-year US Treasury bond yield minus 2-year Treasury Bond yield



Source: Bloomberg, WisdomTree, from 1 January 1977 to 25 February 2020.

You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.

[1] as referenced considering the USGG10YR Index

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