

30-year Treasury bond reappears

In August 2005 the U.S. Treasury Department announced that it is reviving the 30-year Treasury bond. The bond, discontinued in 2001, will be auctioned in the first quarter of 2006 and carry a maturity date of February 15, 2036.

Why the rethinking?

According to Treasury Undersecretary Randal K. Quarles: “We believe that this is a prudent debt management step that will allow Treasury to finance the government’s borrowing needs at the lowest cost over time.”

Others point out that the 30-year bond was retired during a period of budget surpluses. The move made sense when the government had less of a need to borrow and could rely on short-term debt instruments that carry lower rates of interest. After all, investors who are willing to tie up their money for the long term expect a reward in the form of higher returns. But when we are again in a period of budget deficits, and with a pattern of rising interest rates, the government would like to lock in today’s relatively low rates.

“Long-term” benefits

According to the Bond Market Association (BMA), the bond market trade group, the return of the benchmark bond could help pension funds, mortgage bankers and others who want securities with maturities longer than what’s currently available. In addition, it may lower the government’s borrowing costs and provide it with more flexibility in managing its debt portfolio. It also may reduce rollover risks.

The BMA has reported that investors are showing strong interest in a 30-year bond. A recent survey revealed that 98% of respondents felt that they were more likely to invest in longer-dated securities if the 30-year Treasury returned.

Prior to the announcement, the average maturity of government debt had fallen from 60 months to 54 months and was forecast to fall to 47 months by 2009.

Proceed with caution

The higher rates offered by the returning 30-year bond may be attractive to some investors. But what seems high today may seem anemic tomorrow, if interest rates rise significantly and new bonds are paying more.

Selling a bond probably isn't a good solution because an investor is likely to receive back less than he or she paid. And a price drop related to rising interest rates will have more of an impact on earnings because of the investor's risk in having to hold the bond for a longer period of time. (If rates rise by just one percentage point, a 30-year bond can lose 10% of its value.)

Is it time to revisit your portfolio in light of the return of the long-term bond—or for any other economic or personal circumstances? If so, we would be glad to review your current holdings. Give us a call at any time.

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Any developments occurring after January 31, 2006, are not reflected in this article.