10-year Treasuries could yield 5% in three years: BNY Mellon

By Editor Test *Mon, Jul 8, 2013*

“The aftermath of the three-decade-long decline in interest rates is likely to be labeled a secular bond bear market, but we prefer to view it in the context of the cyclical normalization of interest rates,” said Richard Hoey of BNY Mellon.

The “normal cyclical rise” in interest rates is now emerging after a long delay caused by the financial crisis, the recession and the Fed’s yield suppression campaign, said BNY Mellon chief economist Richard Hoey in a recent *Economic Update*.

“The aftermath of the three-decade-long decline in interest rates is likely to be labeled a secular bond bear market, but we prefer to view it in the context of the cyclical normalization of interest rates that we expect over a half-decade period,” Hoey said in a BNY Mellon release.

“If we are correct to expect real GDP growth of 3% or more for the next three years, 10-year Treasury bond yields are likely to eventually normalize at about 5% at the end of a half-decade-long process of interest rate normalization,” he said.

The economic impact of an interest rate rise is very sensitive to the cyclical stage of monetary policy, which ranges from “aggressively stimulative” to “aggressively restrictive,” he added, noting that the Fed plans a gradual move from aggressively stimulative to merely stimulative.