Retirement Income
JOURNAL

You May Live in Interesting Times

By Kerry Pechter *Tue, Jun 1, 2010*

Interest rate risk keeps us all in suspense. Here's how executives at Vanguard, New York Life, Delta Global Advisors, Prudential Annuities, and Loomis, Sayles cope with the uncertainty.

With the Fed Funds rate resting near the freezing point (Celsius), and probably stuck there awhile, members of the financial industry live in varying degrees of suspense over the direction of U.S. interest rates.

Low short-term interest rates, coupled with an historically-high maturity spread for Treasuries, certainly help the banks. They're also a tonic for stocks, which thrive on the absence of competitive bond yields. Low rates also minimize Uncle Sam's potentially massive borrowing costs.

But near-zero short-term rates tend to victimize savers, hurt sales of rate-dependent fixed annuities, increase the cost of hedging the risks of variable annuity riders, and drive up the funding requirements of pension fund managers.

What comes next? The last time the Fed tried to wean the nation from low rates, back in 2004-2006, Alan Greenspan raised rates in predictable quarter-point increments. But the yield curve inverted and an epic crisis soon followed. James Bullard, CEO of the Federal Reserve Bank of St. Louis, told *RIJ* in April that the Fed won't repeat the Greenspan strategy—it was *too* predictable. He didn't say what the Fed might do instead.

That leaves insurers, asset managers and bankers in limbo. RIJ asked interested parties at Vanguard, New York Life, Delta Global Advisors, Prudential Annuities, and Loomis, Sayles & Co. how they cope with rate risk and about their expectations for the future. Click below to read their comments.

Efficient Markets at Work Ken Volpert Vanguard	**In Hedges & Reserves We Trust** Chris Blunt New York Life	**Apocalypse Now** Michael Pento Delta Global Advisors	**Prudent Hedging** Daniel O. Kane Prudential Annuities	**Fixed Income Advice for Advisors** Kathleen C. Gaffney Loomis, Sayles & Co.