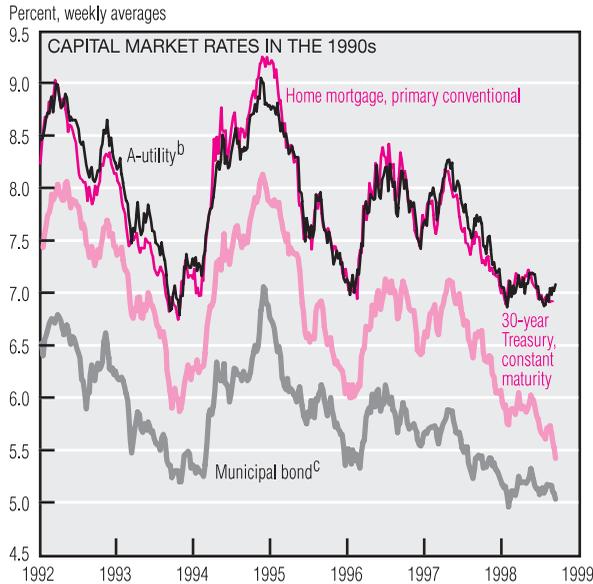
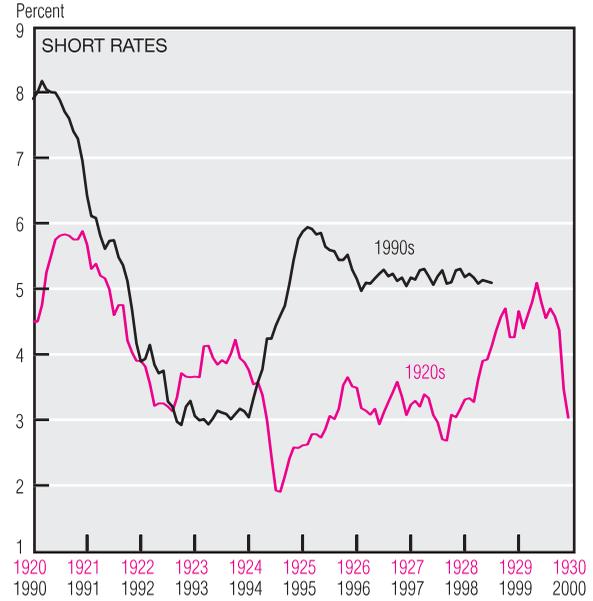
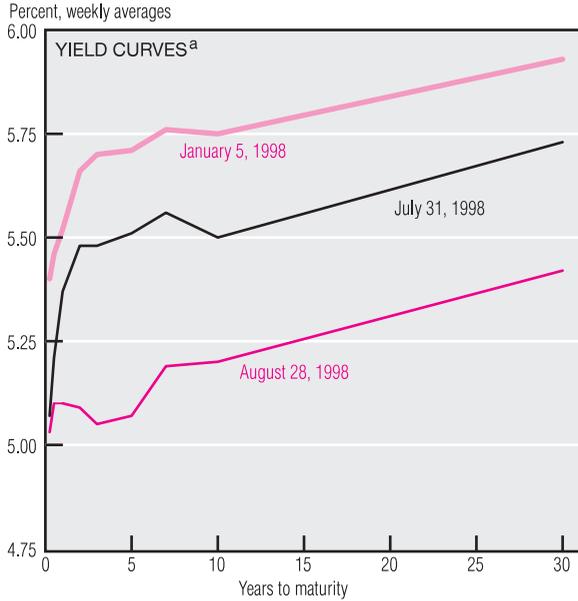


Interest Rates



a. All instruments are constant-maturity series.

b. Estimate of the yield on a recently offered, A-rated utility bond with a maturity of 30 years and call protection of five years.

c. Bond Buyer Index, general obligation, 20 years to maturity, mixed quality.

SOURCES: Board of Governors of the Federal Reserve System; and historical data from Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics*. Washington, D.C.: National Capital Press, 1943.

All along the maturity spectrum, interest rates have moved lower in the past month. Longer rates fell the most, however, producing a noticeable flattening of the yield curve. The 3-year, 3-month spread, for example, dropped from 41 basis points to 2 basis points because the 3-year rate fell 43 basis points and the 3-month rate dropped only 4 basis points. Likewise, the 10-year, 3-month spread dropped from 43 to 17 basis points. Some analysts have ascribed these lower rates to a flight to quality, as investors became

worried about both domestic and foreign investments.

The geopolitical nature of such risks—think of East Asia, Russia, and the effects of counter-terrorist strikes—virtually demands a historical perspective, one befitting the 75th anniversary of the Federal Reserve Bank of Cleveland's building. When this Italianate palazzo was first dedicated in 1923, interest rates had seen a long downward trend as the inflationary disruption of World War I gave way to the relative normalcy of the Roaring Twenties. In September 1923, the *Monthly Business Review*, a

Federal Reserve Bank of Cleveland publication, noted “slightly firmer tendencies in money rates.” But short-term rates on U.S. government bills still had plenty of ups and downs left in them; indeed, from the historical perspective of those days, recent shifts look rather tame.

Longer-term capital market rates show intriguing similarities and differences across the years. Long-term Treasury bonds now yield more than municipal bonds, while public utility bond rates remain much higher than either of them, most likely indicating a continuing risk difference.