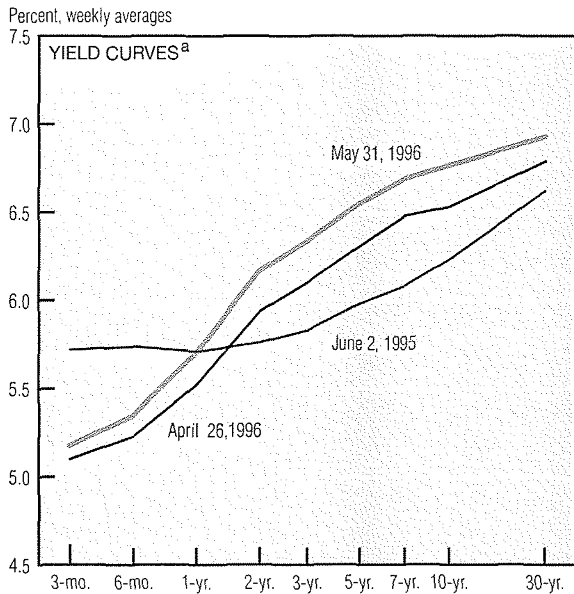
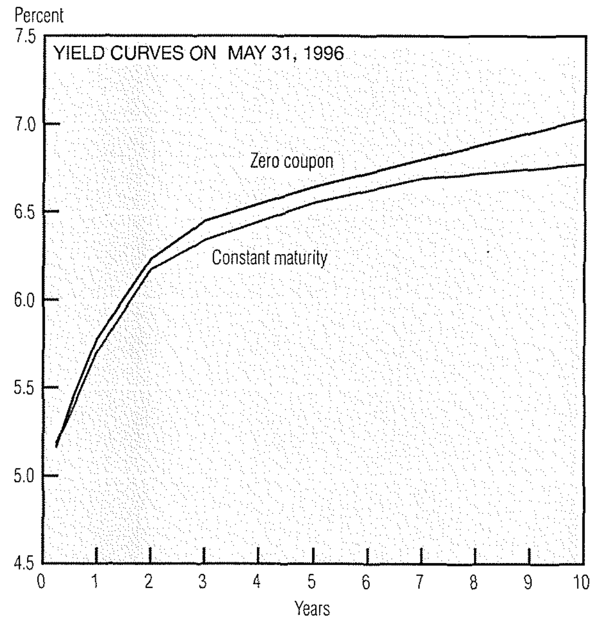
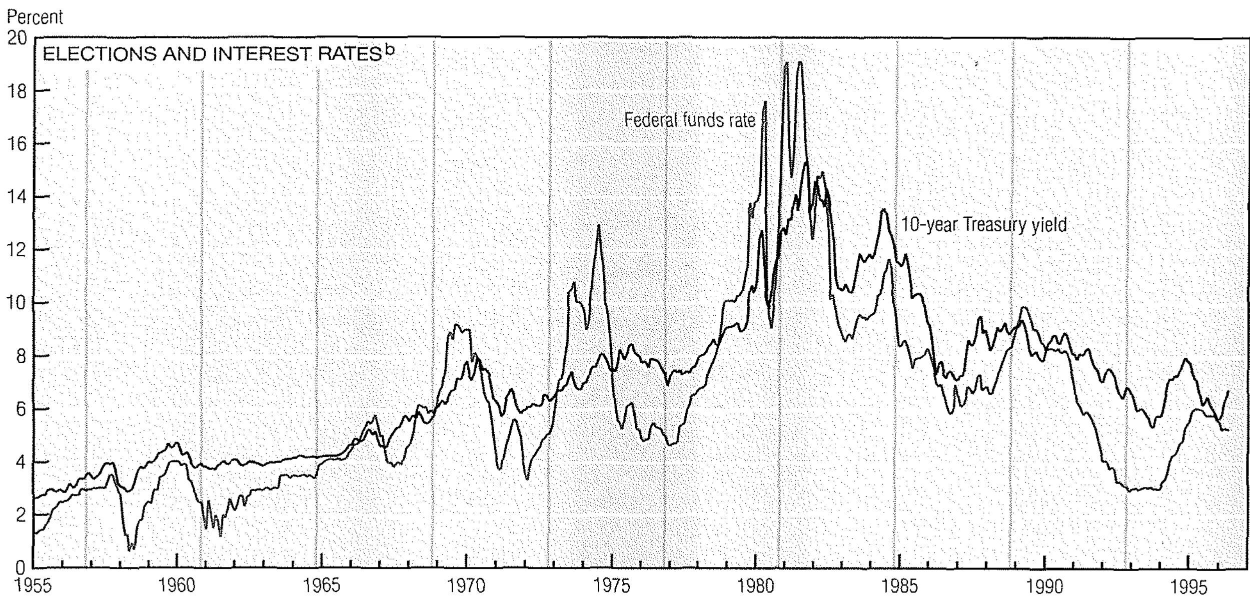
# Interest Rates




a. All instruments are constant maturity series.
b. Vertical lines indicate presidential elections.
SOURCES: Board of Governors of the Federal Reserve System; U.S. Department of the Treasury; and *The Wall Street Journal*.

Since last month, the yield curve has shifted up across all maturities and has steepened slightly. The 3-year, 3-month spread stands at 116 basis points, and the 10-year, 3-month spread is at 159 basis points—both above their historical averages.

Over the past year, the tilt in the yield curve has come primarily from the short end. Since last June, short rates have declined 54 basis points, while long rates have risen only 31 basis points, bringing the yield curve back to its more characteristic concave shape. Rates on zero-coupon bonds continue to track those of standard coupons. With an upward-sloping yield curve, a pure "zero" should have a higher yield, as it currently does.

Analysts often suggest that in presidential election years, the government pressures the Federal Reserve to keep interest rates low in an effort to boost the President's chances of reelection. This explanation has at least three problems: 1) the Federal Reserve is independent of the government, 2) different parties often control Congress and the White House, and 3) the effect of interest rates on the economy is unclear. The federal funds rate (controlled by the Federal Reserve) and the 10-year Treasury yield have often risen before elections. At other times, such as in 1992, declines are part of a long downward trend that hardly seems related to election-year politics. Certainly, interest rates have dipped around the time of national elections (such as in 1968 and 1976), and political pressure may hold down increases, but no strong pattern emerges to set election years apart.