We'd like to share some insights regarding the current trends in Treasury yields and their potential implications for investors. Over the past few weeks, we have seen rates decelerate significantly and may see further declines.

Treasury Yields

The recent era of +5% Treasury yields may be coming to a close, potentially marking the end of an enjoyable period for market participants. Currently, only the 3-Month and 6-Month yields remain at +5%. Once the Federal Reserve rate cuts become imminent, these yields will drop.

According to Bloomberg, market pricing implies six 0.25% (25-basis-point) rate cuts in 2024. If those rate cuts materialize, the 3-Month and 6-Month Treasury yields will likely fall below 4% next year.

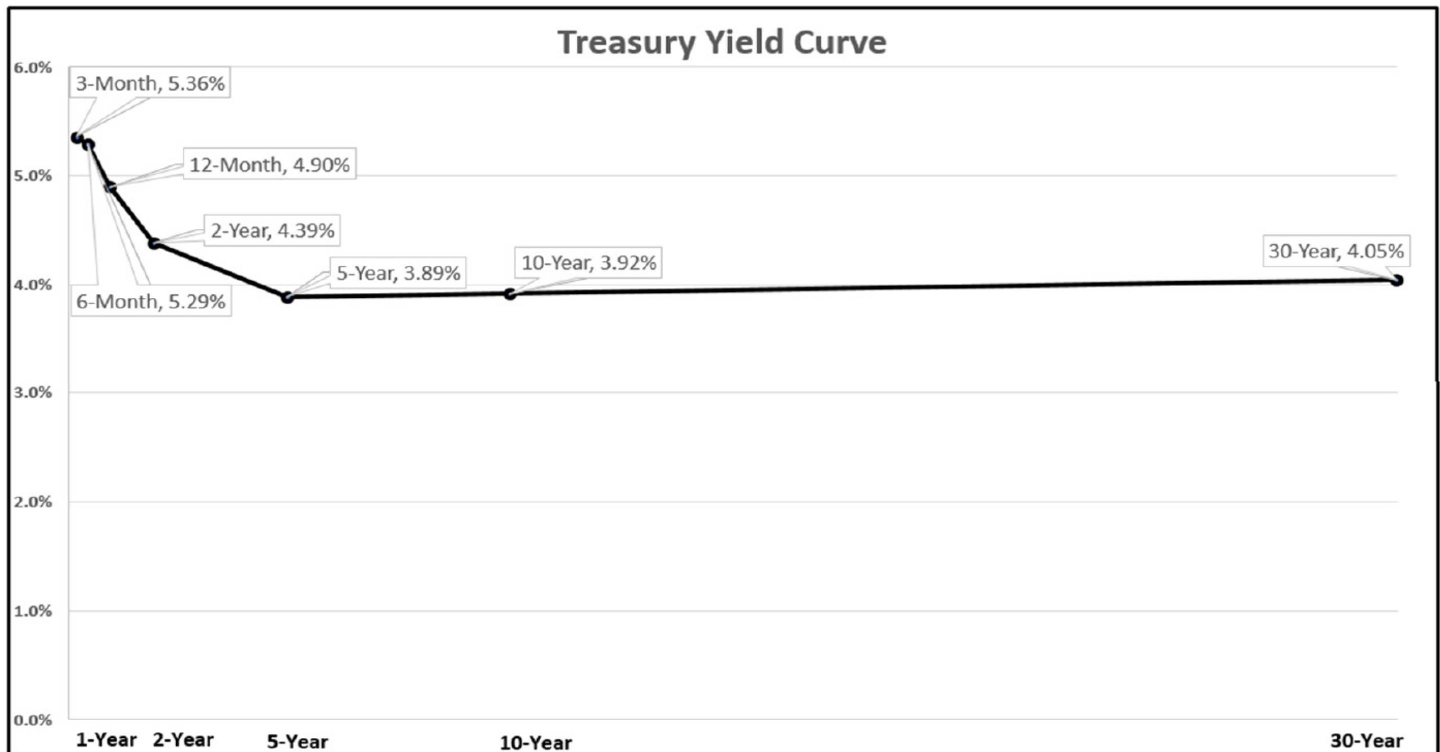
In general, the Federal Reserve primarily influences shorter-term Treasury yields by determining the target federal funds rate, while the market controls longer-term rates as investor demand will fluctuate based on future expectations of inflation and economic growth.

Why have yields declined over the past 6 weeks?

The decline in yields has been driven by a combination of factors. Inflation data continued to decelerate and the labor market has shown signs of softening. As a response to these economic shifts, the Federal Reserve adjusted its stance, abandoning the "higher-for-longer" outlook on interest rates.

Consider extending maturities to take advantage of current rates.

We believe yields around 4% are still attractive for investors seeking a balance between income and risk. If interested, please speak with your advisor about our Cash Alternatives Strategy, which is an investment strategy designed for individuals or entities to invest excess cash seeking potentially attractive yields in a conservative portfolio of short-term fixed income securities, including US Treasuries. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Investing involves risk including loss of principal. This strategy and its related holdings are not FDIC-insured.



Source: Bloomberg. 12/15/2023

The Treasury yield curve is a graphical representation of the yields on U.S. Treasury securities across various maturities, ranging from short-term to long-term. It shows the relationship between the interest rates (yields) and the time to maturity.

Disclosures

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield.

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