

Fed Rate Cuts Provide Opportunities

We expect TIPs to continue to outperform Treasurys in 2025.

Treasury yields were largely driven in 2024 by the changing monetary policy outlook, which moved from the 150 basis points of easing that was priced in early in the year to the Fed delivering just 100 basis points by year end. Looking forward, the number of catalysts that could impact Treasury yields have increased: Anticipated changes to regulatory and fiscal policy, burgeoning Treasury supply, and a less dovish Fed all have the potential to create attractive investment opportunities.

Sector Commentary

- Treasury yields increased 50-75 basis points in 2024 in the intermediate and longer end of the curve as Fed pricing evolved. Yields now sit at the higher end of their recent trading range.
- Any immigration reform and tariff increases implemented early in the Trump administration could create short-term pricing pressures.
- A more favorable regulatory environment could make Treasurys an attractive investment for banks, increasing demand from these market participants that have been mostly absent over recent years.
- Treasury stripping activity is likely to remain robust in 2025, with attractive long-end rates and healthy pension funding ratios after strong equity market performance in 2024.

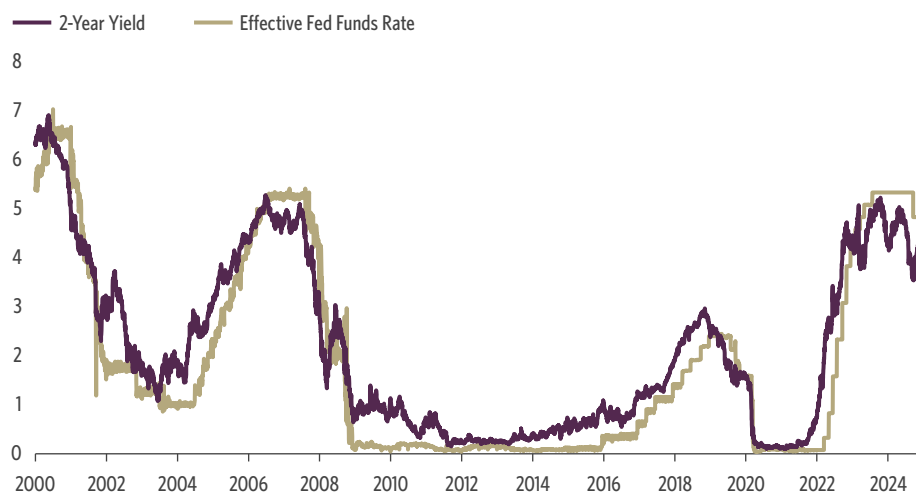
Investment Themes

- TIPs outperformed Treasurys by 125 basis points in 2024, and we believe they will continue to do well in 2025 and will look to opportunistically increase exposure.
- Further cuts in the fed funds rate are likely this year as the Fed moves closer to a neutral policy rate. With shorter-duration Treasury yields trading close to the current fed funds rate, we see potential price appreciation in owning shorter-duration Treasurys.
- The Treasury yield curve should steepen as the Fed continues to lower short-term interest rates and Treasury coupon supply increases, moving the term premium higher.
- As brisk Treasury stripping continues, the spread between coupon and principal strips could widen further, creating attractive relative value opportunities in zero coupon Treasury space.

By Kris Dorr and Tad Nygren

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We See Potential Price Appreciation in Owning Shorter-Duration Treasurys



Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2024.

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