Rates

Treasury Yields Volatile Amid Policy Uncertainty

Tactical duration positioning is crucial as Treasury yields approach extremes.

Treasury yields have increased amid heightened trade, fiscal, and geopolitical policy uncertainty. This trend is likely to persist until policy clarity emerges, impacting Fed monetary policy. We anticipate that an eventual end to the Fed's quantitative tightening policy and a potentially more accommodating regulatory environment may help to support Treasury prices. Meanwhile, we will maintain a tactical approach to duration positioning, increasing duration as rates approach the upper end of the range and reducing duration as rates move to the lower end.

Sector Commentary

- Treasury yields decreased by 15–40 basis points across the curve in the first quarter as tariff concerns influenced long-term growth projections.
- Short-term yield declines were more pronounced, steepening the yield curve after the Fed signaled two potential rate cuts this year and next.
- At the March meeting, the Fed announced it would slow quantitative tightening starting in April, reducing the monthly Treasury cap from $25 billion to $5 billion. This adjustment aims to stabilize bank reserve levels during debt ceiling negotiations and enable the Fed to participate in Treasury auctions.
- Treasury market returns have been strong, with Treasurys up 2.92 percent year to date. Additionally, Treasury inflation protected securities gained 4.17 percent year to date as of March 31, driven by fluctuating tariff headlines.

Investment Themes

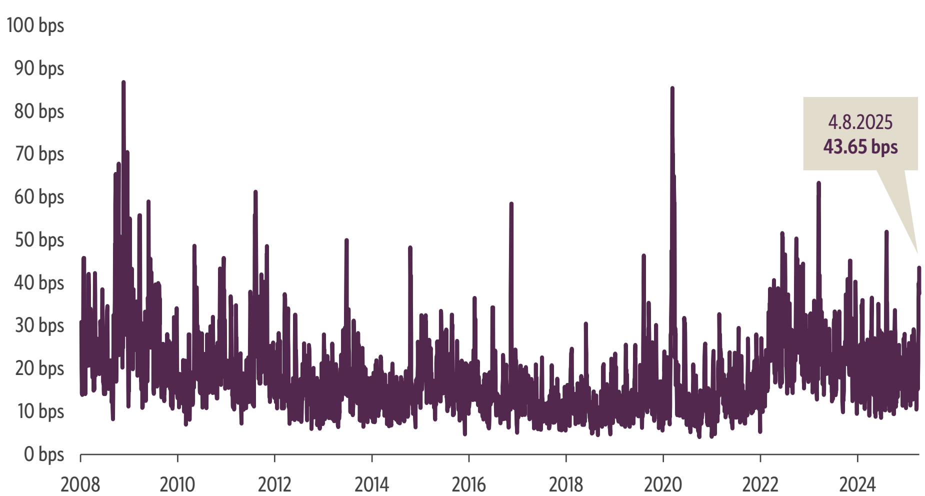
- As the global environment adapts to new fiscal and trade policy regimes, we anticipate that the Fed will maintain its current stance until later this year, with Treasury yields remaining within a trading range.
- The Fed's easing campaign later this year should contribute to a steeper yield curve as short-term interest rates decline.
- If Fed Governor Michelle Bowman is confirmed by the Senate as Vice Chair of Supervision, her appointment is likely to foster a more favorable regulatory environment. This could positively impact Treasury securities.
- Overall, these developments suggest a dynamic landscape for financial markets, with potential opportunities arising from shifts in monetary policy and regulatory frameworks.

By Kris Dorr and Tad Nygren

Treasury yields have increased amid heightened trade, fiscal, and geopolitical policy uncertainty. This trend is likely to persist until policy clarity emerges, impacting Fed monetary policy.

Policy Uncertainty Has Caused Treasury Yields to Spike

Daily Trading Range on the 10-Year Treasury Yield



Source: Guggenheim Investments, Bloomberg. Data as of 4.8.2025.

One **basis point** is equal to 0.01%.