To Our Valued Clients,

A persistent selloff in the U.S. treasury bond market has driven yields to levels not seen in nearly 20 years. Specifically, earlier this week the 10-year treasury note eclipsed 5% for the first time since 2007. Yields, which rise when bond prices fall, have been on a steady climb since the spring of 2022 when the Fed commenced its rate hiking regime. We often hear the 10-year referenced as a barometer for borrowing costs throughout the economy, so what are the macro implications of its recent rise?

The yield on a 10-year treasury bond was sitting at about 0.75% three years ago as the economy was digesting ongoing COVID lockdowns, and the Fed was cutting rates and buying bonds. Today, that yield hovers around 5%, the fastest rise since Volcker's Fed during the 70s and 80s. Fed policy, inflation, economic resilience, and shifting supply/demand dynamics have placed persistent upward pressure on rates. Why is this important? Treasury yields act as a benchmark for other interest rates throughout the economy. As such, when these policy rates rise so do rates on things like mortgages, which have now eclipsed 8%, credit cards, auto loans, and business loans. Rising rates, partly by design, act as a headwind from an economic standpoint; higher cost of capital results in lower economic activity.

It's unclear at this point if the recent move in yields will be the highwater mark for this cycle. After breaching 5%, fresh buying interest emerged for the 10-year, moving yields moderately lower. Additionally, a few prominent players in the fixed-income market announced that they have closed their short positions on the treasury market, stating that at 5% the risk-reward profile for long-term treasuries is attractive, a sentiment we would agree with. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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