

US Interest rates monitor

Treasury yields little changed as the Fed signals no immediate shift in policy

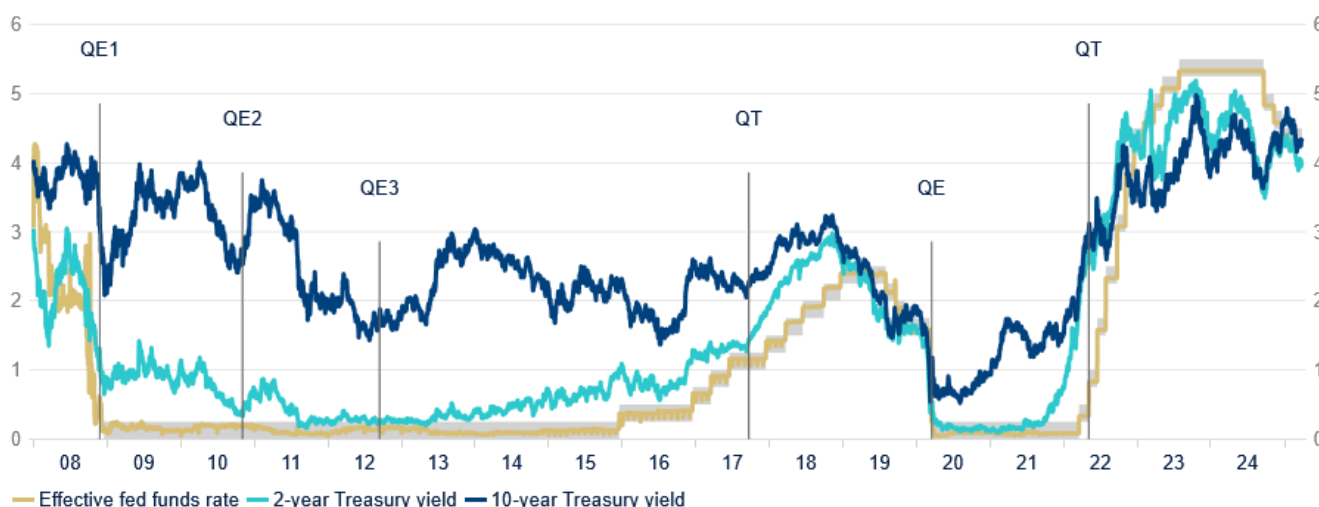
Javier Amador / Iván Fernández
March 27, 2025

Markets' concerns about Trump's protectionist policies have led to expectations that the Fed will resume monetary easing in 2H25

- The 2-year Treasury yield fluctuated in a 3.9-4.1% narrow range over the past month with the expectation that the Fed will maintain a wait-and-see stance for several more months ([Figure 4](#)).
- The 10-year yield is close to 4.4% after yesterday's announcement of a 25% global tariff on automobile imports, but still 40 bps below its 4.8% peak reached a week before Trump's inauguration ([Figure 5](#)).
- The decline in real yields observed from mid-January to late February seems to have bottomed out in March despite latent downside risks to growth ([Figures 13](#) and [14](#)).
- While short-term inflation expectations have increased, the Fed doesn't seem troubled for now because "most measures of longer-term expectations remain consistent with [the Fed's] 2% inflation goal" ([Figure 17](#)).
- The median FOMC projection in the updated SEP continues to be for the fed funds rate to fall to 3.9% by the end of this year and to 3.4% by year-end 2026 ([Figures 29](#) and [30](#)).

Treasury yields showed little change over the past month after last week's Fed decision to leave the fed funds rate unchanged within the 4.25-4.50% target range had been factored into market expectations...

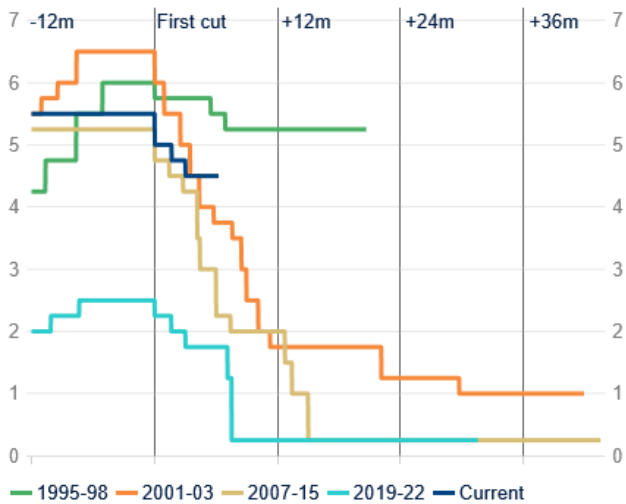
Figure 1. FED FUNDS RATE AND TREASURY YIELDS (%)



The gray area indicates the fed funds rate target range; QE and QT indicate quantitative easing and tightening announcements
Source: BBVA Research / Fed / Treasury Dept.

... well in advance, and given that FOMC officials' updated economic projections offered no...

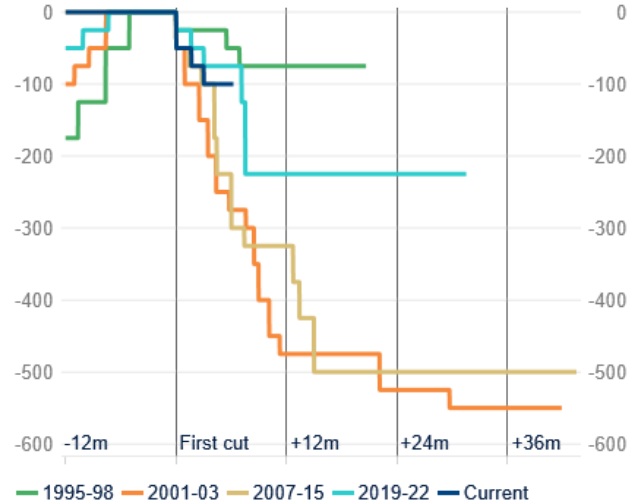
Figure 2. **FED FUNDS RATE IN EASING CYCLES** (%)



Target rate for the 1995-98, 2001-03, and 2007-15 (before 16-Dec-08) cycles; upper limit of the target rate range for the 2007-15 (after 16-Dec-08), 2019-22, and current cycles. Source: BBVA Research / Fed

... significant surprises. With the expectation that the Fed will maintain a wait-and-see stance for...

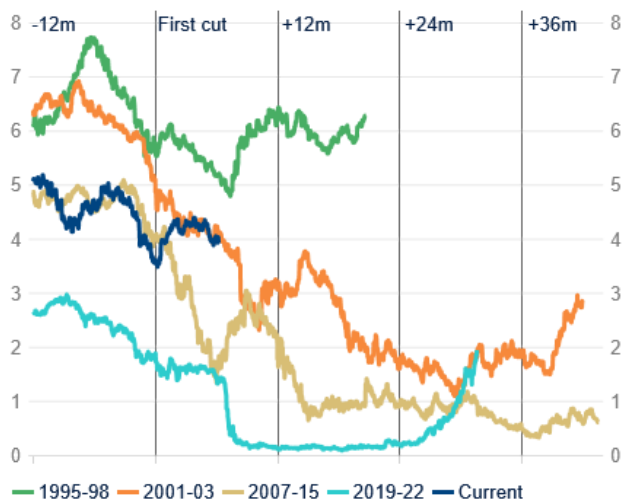
Figure 3. **FED FUNDS RATE IN EASING CYCLES** (BPS VS RATE AT FIRST CUT)



Source: BBVA Research / Fed

... several more months, the 2-year Treasury yield fluctuated in a 3.9-4.1% narrow range over the...

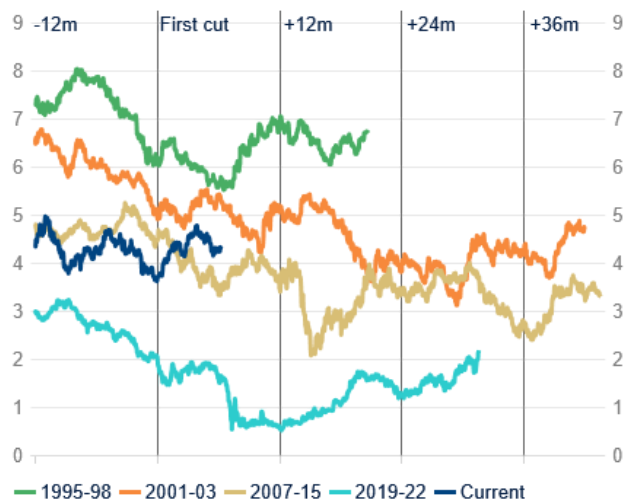
Figure 4. **2-YEAR TREASURY YIELD IN EASING CYCLES** (%)



Source: BBVA Research / Treasury Dept.

... past month. On the other hand, after having fallen to a 2025-low of 4.16% in early March, the...

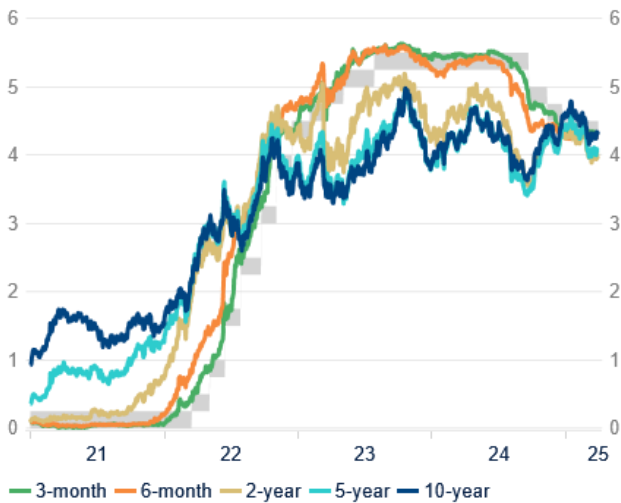
Figure 5. **10-YEAR TREASURY YIELD IN EASING CYCLES** (%)



Source: BBVA Research / Treasury Dept.

... 10-year yield hovered around 4.3% for most of the month following the release of activity data...

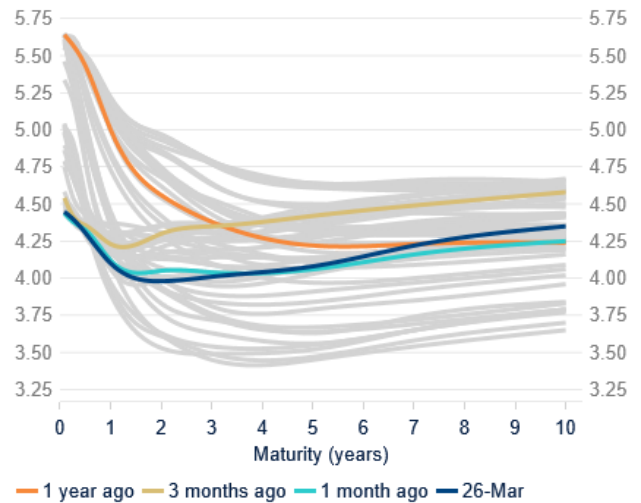
Figure 6. **TREASURY YIELDS**
(%)



The gray area indicates the fed funds rate target range
Source: BBVA Research / Fed / Treasury Dept.

... that in recent weeks have partially eased concerns that the economy is on a cliff's edge: ...

Figure 7. **TREASURY YIELD CURVE**
(%)



The gray lines indicate weekly curves over the past year; intermediate rates calculated with natural cubic spline interpolation
Source: BBVA Research / Treasury Dept.

... control group sales and manufacturing output jumped 1.0 and 0.9% MoM, respectively, ...

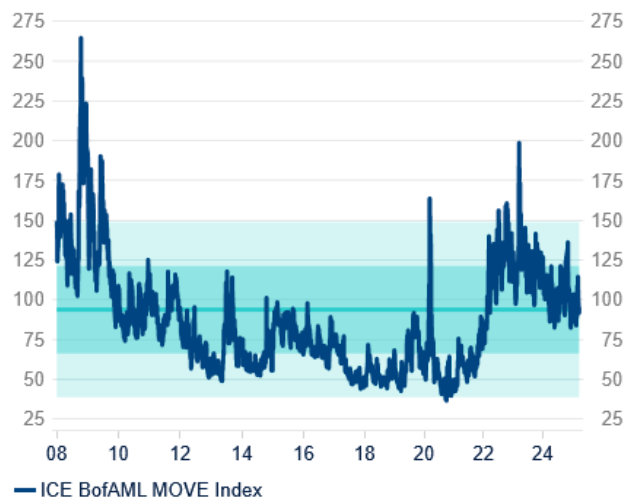
Figure 8. **10-YEAR TREASURY YIELD DAILY CHANGE**
(% AND BPS)



The gray area indicates the fed funds rate target range
Source: BBVA Research / Fed / Treasury Dept.

... in February. However, the 10 year yield is now closer to 4.4% after yesterday's White House...

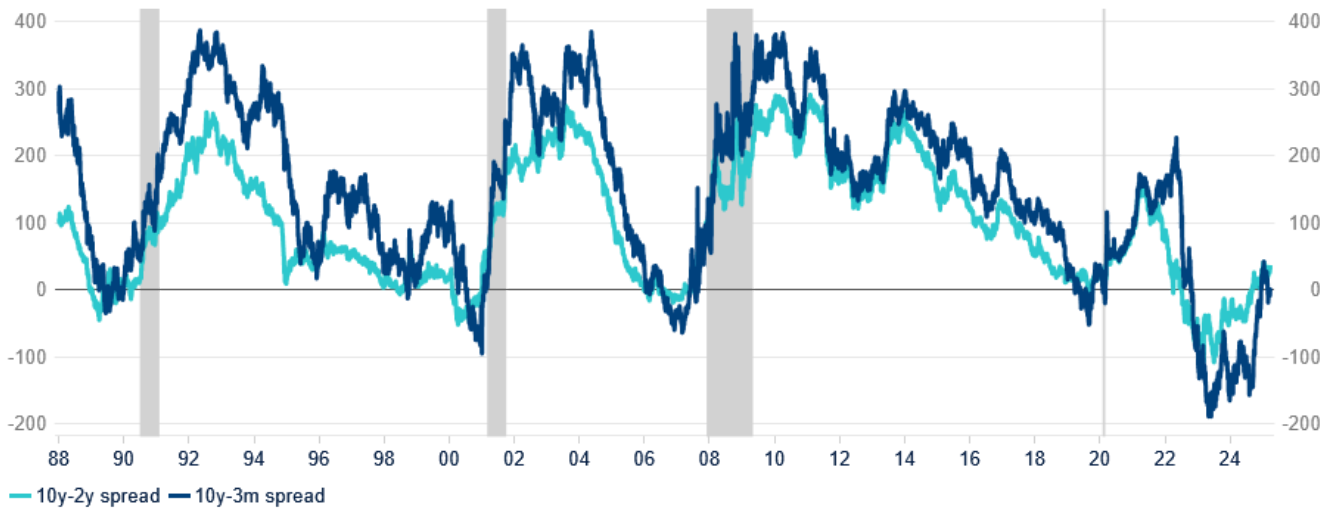
Figure 9. **ICE BOFAML MOVE INDEX**
(BPS)



The shaded areas indicate the ranges within one and two standard deviations from the mean. Source: BBVA Research / ICE BofAML

... announcement of the imposition of a 25% global tariff on automobile imports. Yet, it is still 40 bps below its 4.8% peak reached a week before Trump's inauguration, as downside risks to growth from...

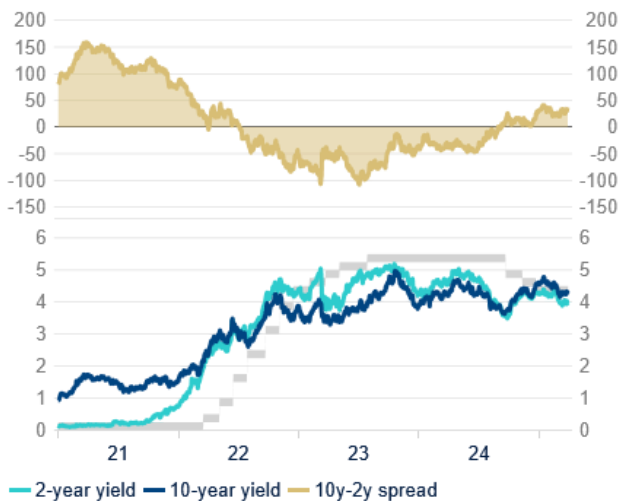
Figure 10. **TREASURY YIELD SPREADS (BPS)**



The gray shaded areas indicate US recessions as defined by NBER
Source: BBVA Research / NBER / Treasury Dept.

... tariffs and migration policies are weighing on long term rates. With shorter-term yields stable...

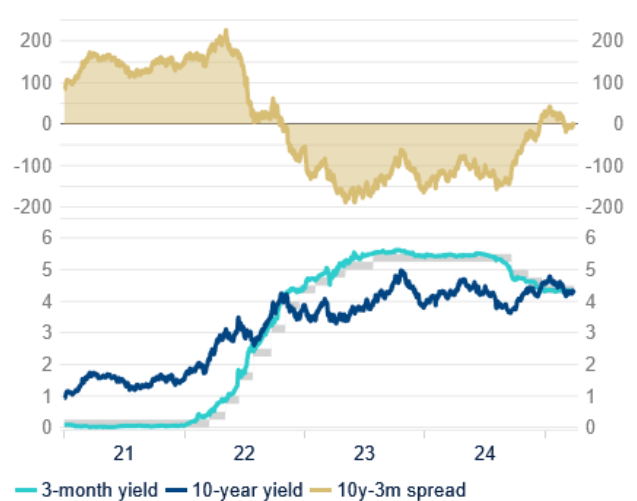
Figure 11. **10Y-2Y TREASURY YIELD SPREAD (BPS AND %)**



The gray area indicates the fed funds rate target range
Source: BBVA Research / Fed / Treasury Dept.

... since the Fed's last policy rate adjustment in December, the 10y-3m yield spread is near zero

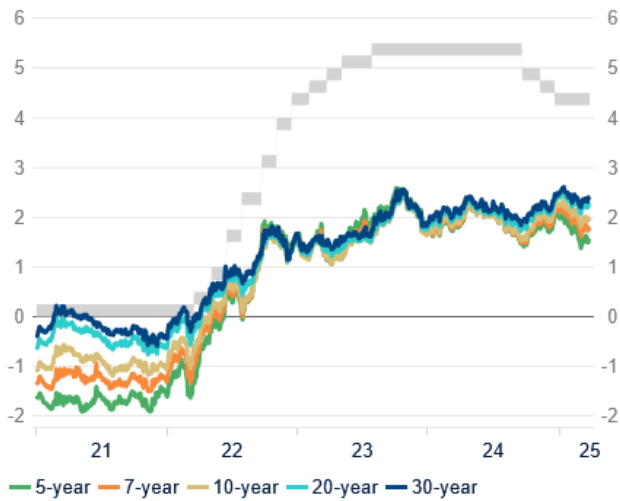
Figure 12. **10Y-3M TREASURY YIELD SPREAD (BPS AND %)**



The gray area indicates the fed funds rate target range
Source: BBVA Research / Fed / Treasury Dept.

The decline in real yields observed from mid-Jan to late February seems to have bottomed out in...

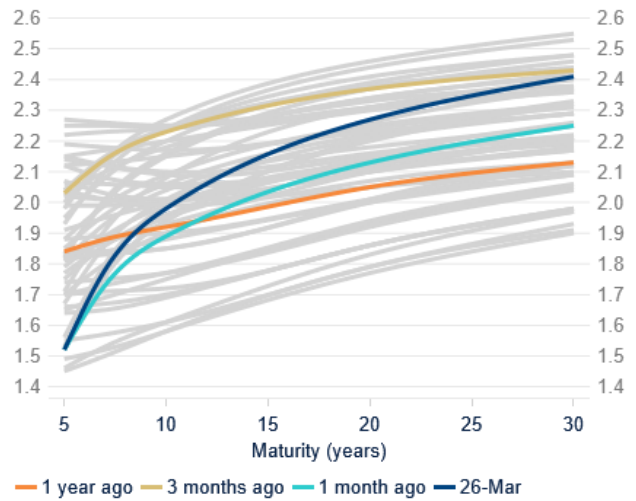
Figure 13. **TREASURY REAL YIELDS (TIPS)** (%)



The gray area indicates the fed funds rate target range
Source: BBVA Research / Fed / Treasury Dept.

... March despite latent downside risks to growth

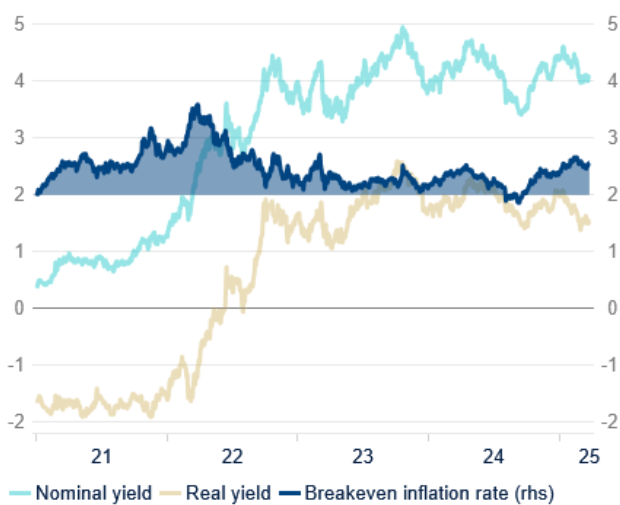
Figure 14. **TREASURY REAL YIELD CURVE (TIPS)** (%)



The gray lines indicate weekly curves over the past year; intermediate rates calculated with natural cubic spline interpolation
Source: BBVA Research / Treasury Dept.

While short-term inflation expectations have increased, with survey respondents pointing to...

Figure 15. **5-YEAR TREASURY BREAKEVEN INFLATION RATE (%)**



The shaded area indicates the deviation from the 2% inflation target
Source: BBVA Research / Treasury Dept.

... tariffs as a contributing factor, the Fed doesn't seem significantly bothered for now. Powell...

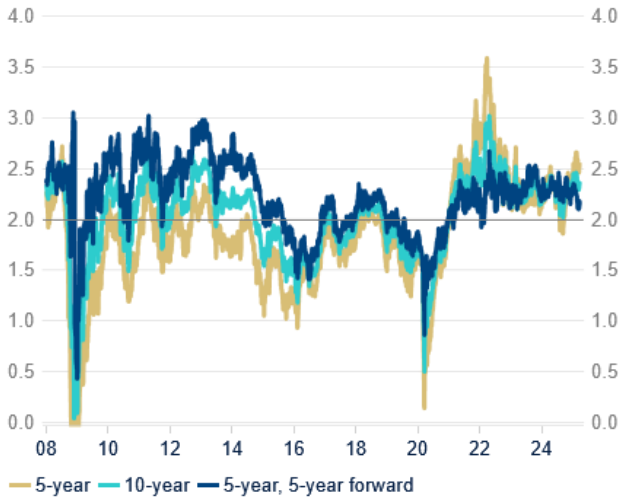
Figure 16. **10-YEAR TREASURY BREAKEVEN INFLATION RATE (%)**



The shaded area indicates the deviation from the 2% inflation target
Source: BBVA Research / Treasury Dept.

... noted during last week's press conference that "if you look a little further out [...] most..."

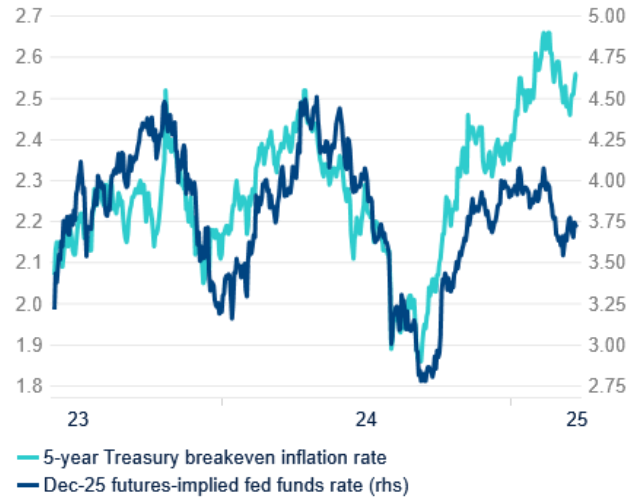
Figure 17. **BREAKEVEN INFLATION RATES (%)**



Source: BBVA Research / Treasury Dept.

... measures of longer-term expectations remain consistent with [the Fed's] 2% inflation goal"

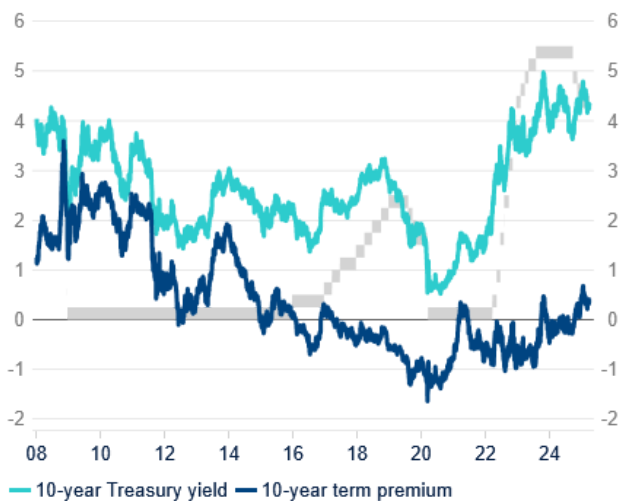
Figure 18. **BREAKEVEN INFLATION AND FUTURES-IMPLIED FED FUNDS RATE (%)**



Source: BBVA Research / CME / Treasury Dept.

This appears to be consistent with the fact that inflation compensation has not been the main...

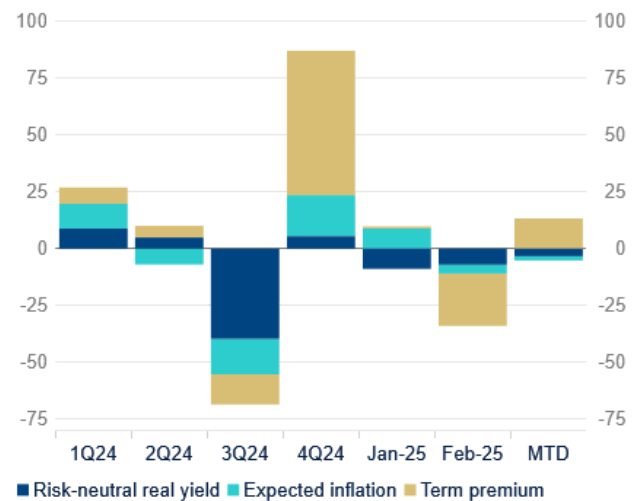
Figure 19. **10-YEAR TREASURY YIELD AND TERM PREMIUM (%)**



The gray area indicates the fed funds rate target range; the term premium is based on the NY Fed ACM model. Source: BBVA Research / Fed / Treasury Dept.

... determinant of long-term yield swings in the past two months

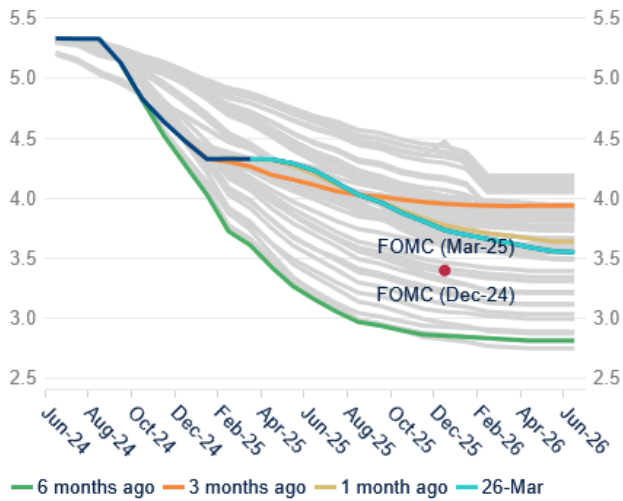
Figure 20. **10-YEAR TREASURY YIELD CHANGE BREAKDOWN (BPS)**



Based on the NY Fed ACM model
Source: BBVA Research / Fed / Treasury Dept.

Markets remain concerned that Trump's protectionist policies will harm economic...

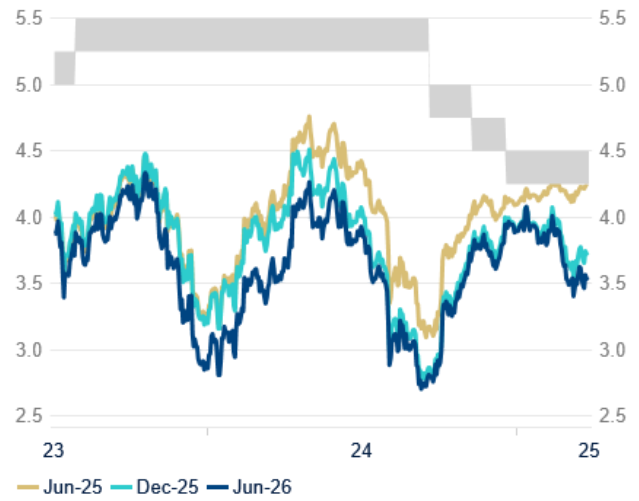
Figure 21. FUTURES-IMPLIED FED FUNDS RATE (%)



The gray lines indicate weekly implied rate paths over the past year
Source: BBVA Research / CME / Fed

... activity, leading to expectations that the Fed will resume monetary easing in 2H25

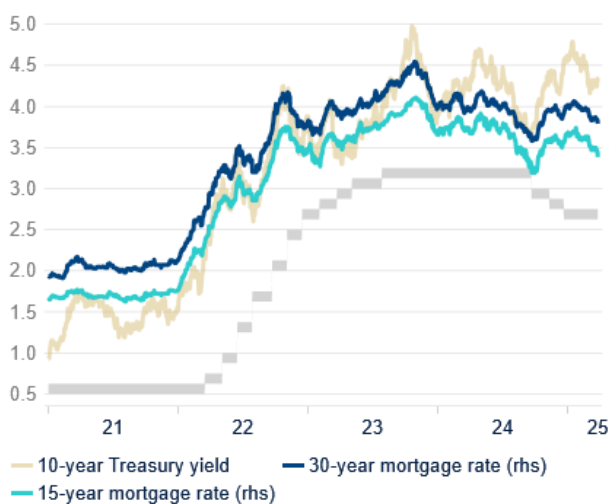
Figure 22. FUTURES-IMPLIED FED FUNDS RATE (%)



The gray area indicates the fed funds rate target range
Source: BBVA Research / CME / Fed

Mortgage rates have fallen to levels similar to those of October of last year

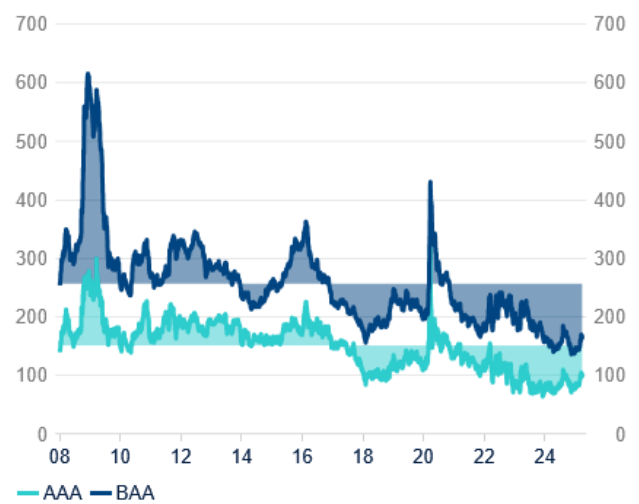
Figure 23. MORTGAGE RATES (%)



The gray area indicates the fed funds rate target range (rhs)
Source: BBVA Research / Bankrate / Fed / Treasury Dept.

Corporate-debt risk premia remain near the bottom of their historical distributions

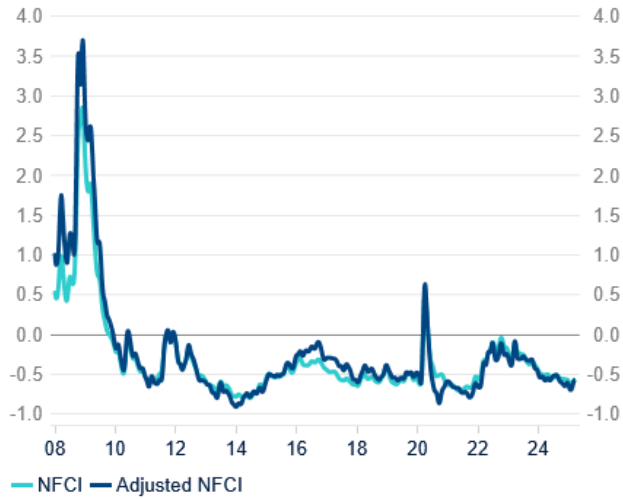
Figure 24. CORPORATE BOND YIELD SPREADS (BPS)



Spreads over the 10-year Treasury yield; the shaded area indicates the deviation from the historical average since 2008
Source: BBVA Research / Fed / Treasury Dept.

The remarkable calm depicted by most broad financial conditions indices is consistent...

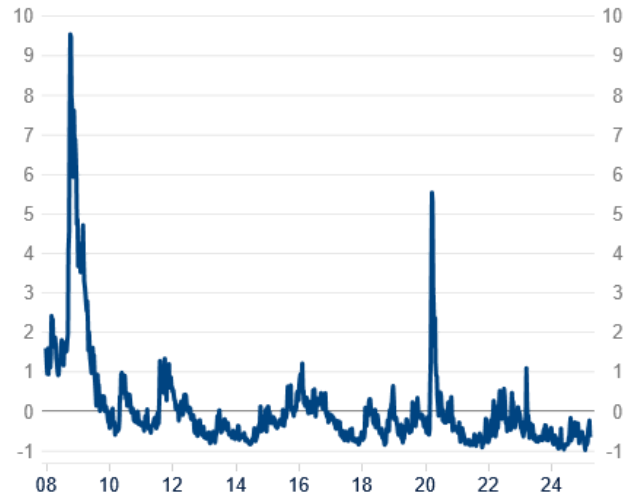
Figure 25. **CHICAGO FED NATIONAL FINANCIAL CONDITIONS INDEX (>0: TIGHTER THAN AVG.)**



Source: BBVA Research / Fed

... with the fact that most of the real economy has remained in reasonably good shape...

Figure 26. **ST. LOUIS FED FINANCIAL STRESS INDEX (>0: ABOVE AVG. FINANCIAL STRESS)**



Source: BBVA Research / Fed

... throughout the recent period of restrictive policy. Even more recently, "it's [just] the..."

Figure 27. **KANSAS CITY FED FINANCIAL STRESS INDEX (>0: ABOVE AVG. FINANCIAL STRESS)**



Source: BBVA Research / Fed

... soft data, it's the surveys, that are showing, significant concerns, downside risks"

Figure 28. **OFR* FINANCIAL STRESS INDEX (>0: ABOVE AVG. FINANCIAL STRESS)**

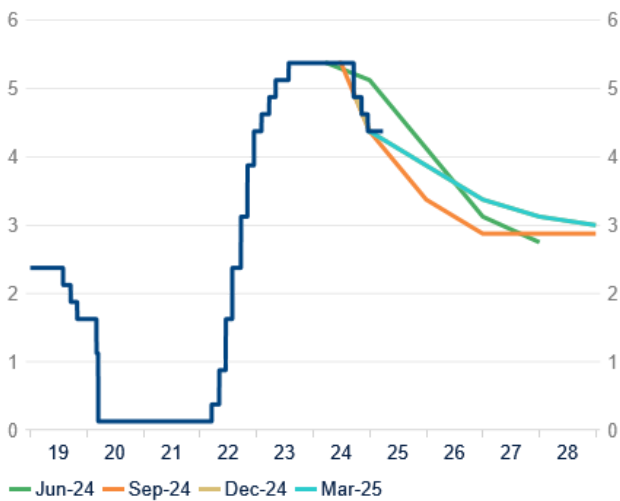


* OFR: Office of Financial Research
Source: BBVA Research / Treasury Dept.

The updated SEP still point to 50bp worth of rate cuts later this year but also that more members are in no hurry to cut

The median projection continues to be for the fed funds rate to fall to 3.9% by the end of this year...

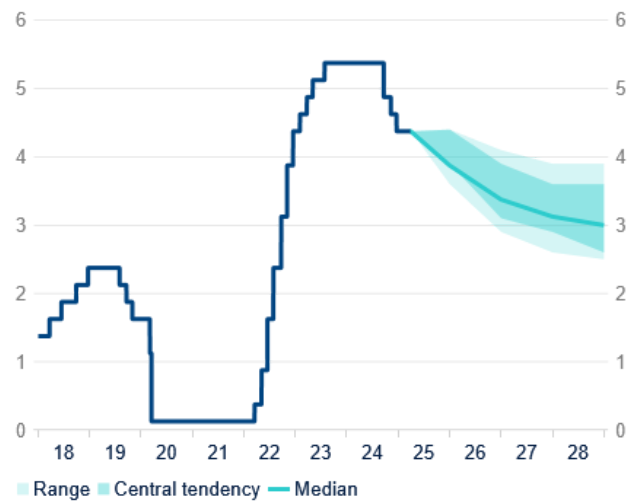
Figure 29. FOMC PROJECTED FED FUNDS RATE (%)



Source: BBVA Research / Fed

... and to 3.4% by year-end 2026. Four members are now leaning to no cuts this year, up from...

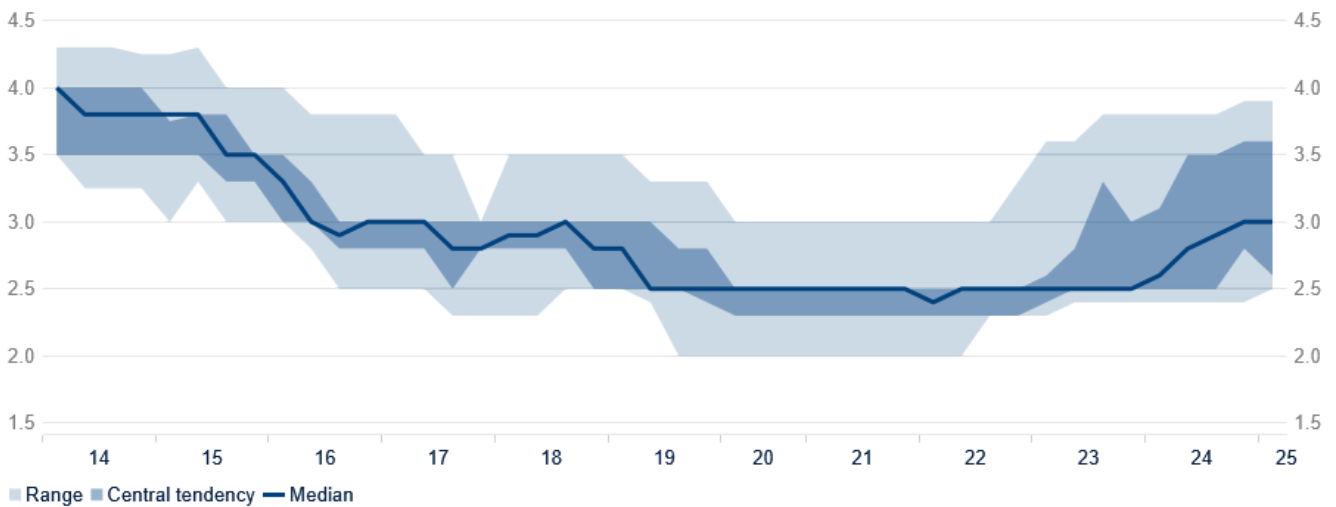
Figure 30. FOMC PROJECTED FED FUNDS RATE (%)



Source: BBVA Research / Fed

... only one in December. The median projection for the longer-run fed funds remained broadly stable, with the median projection unchanged at 3.0%

Figure 31. FOMC LONGER RUN FED FUNDS RATE ESTIMATION (%)



Source: BBVA Research / Fed

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