

## US Interest Rates Monitor

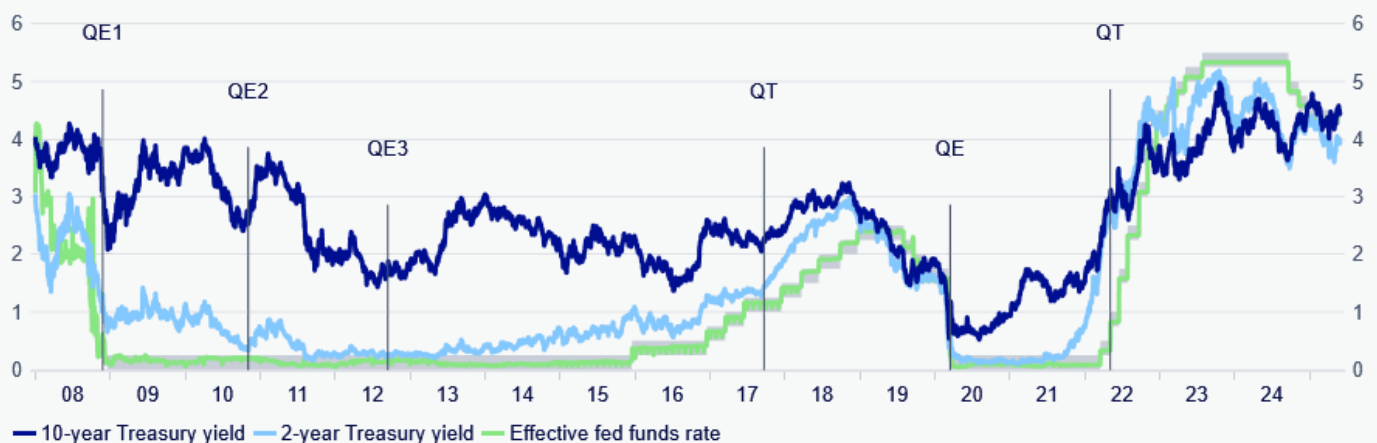
# Long-term yields keep facing upward pressure from term premia

**Easing recession concerns amid recent de-escalation in trade tensions has led markets to adopt the view that there is “no hurry” to cut rates**

- Long-term yields have remained stubbornly elevated, with the 10-year Treasury yield averaging 4.4% so far this year—above last year’s 4.2% average.
- The rise in the 30-year Treasury yield has been likely driven by growing concerns over U.S. fiscal sustainability and reduced global appetite for Treasuries amid policy-related concerns.
- Usually, yield curve steepening during rate cut cycles signals improving growth prospects; this time is driven by a rising term premium, reflecting heightened concerns rather than optimism.
- A sudden loss of the U.S. dollar’s dominance remains unlikely, but rising risk compensation demanded by investors could shift the global equilibrium of real rates higher.
- Despite continued pessimism in consumer and business sentiment surveys, market-based measures of long-term inflation expectations remain well anchored.

The Fed’s decision to hold rates steady in May while emphasizing a “wait-and-see” approach prompted markets to reassess the policy outlook, pushing the 2-year yield up to 4.0% from its late-April low of 3.6%

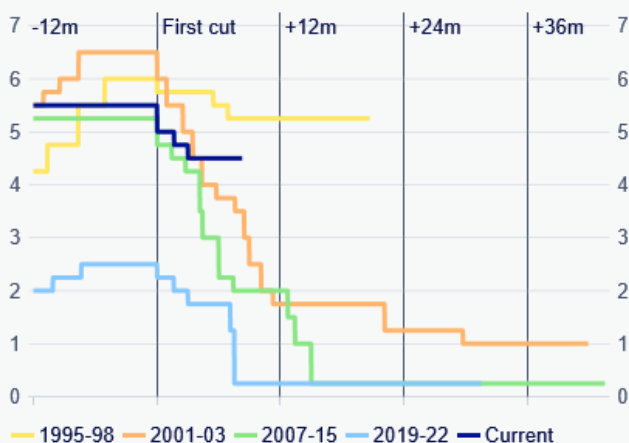
## FED FUNDS RATE AND TREASURY YIELDS (%)



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.

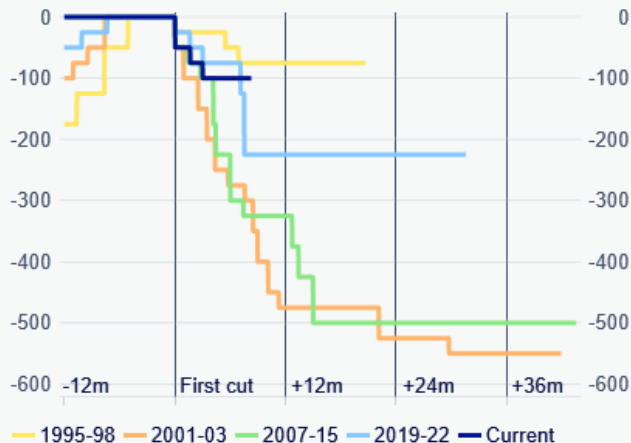
The current easing cycle is slower than recent ones, with no cuts so far this year amid stickier-than-expected core inflation, a solid labor market, and lingering uncertainty around Trump's policies

## 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

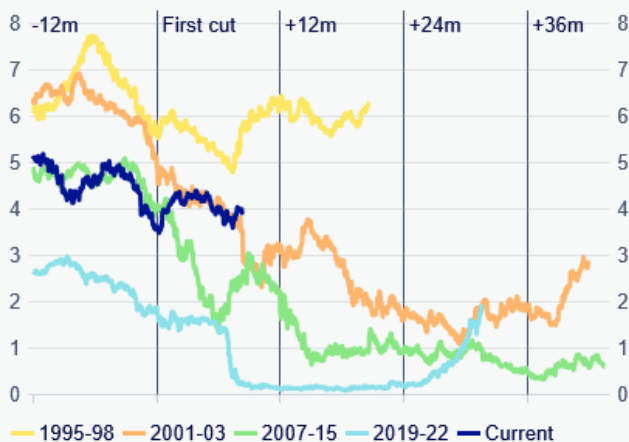
## FED FUNDS RATE IN EASING CYCLES (BPS VS RATE AT FIRST CUT)



Source: BBVA Research / Treasury Dept.

Long-term yields have remained stubbornly elevated, with the 10-year Treasury yield averaging 4.4% so far this year (vs 4.2% 2024 average), partly due to a more gradual easing cycle. A notable development...

## 2-YEAR TREASURY YIELD IN EASING CYCLES (%)



Source: BBVA Research / Treasury Dept.

## 10-YEAR TREASURY YIELD IN EASING CYCLES (%)



Source: BBVA Research / Treasury Dept.

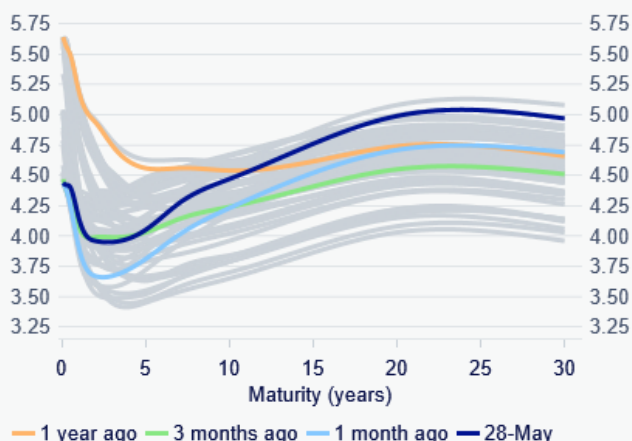
... in recent weeks has been the rise in the 30-year Treasury yield, likely driven by growing concerns over U.S. fiscal sustainability—particularly following the passage of the "One Big Beautiful Bill"—and reduced...

## TREASURY YIELDS (%)



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

## 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.

... global appetite for U.S. Treasuries as bond investors want to be rewarded for higher risks, an adjustment that, so far, hasn't triggered extreme volatility that would warrant Fed liquidity intervention

## 10-YEAR TREASURY YIELD DAILY CHANGE (% AND BPS)



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

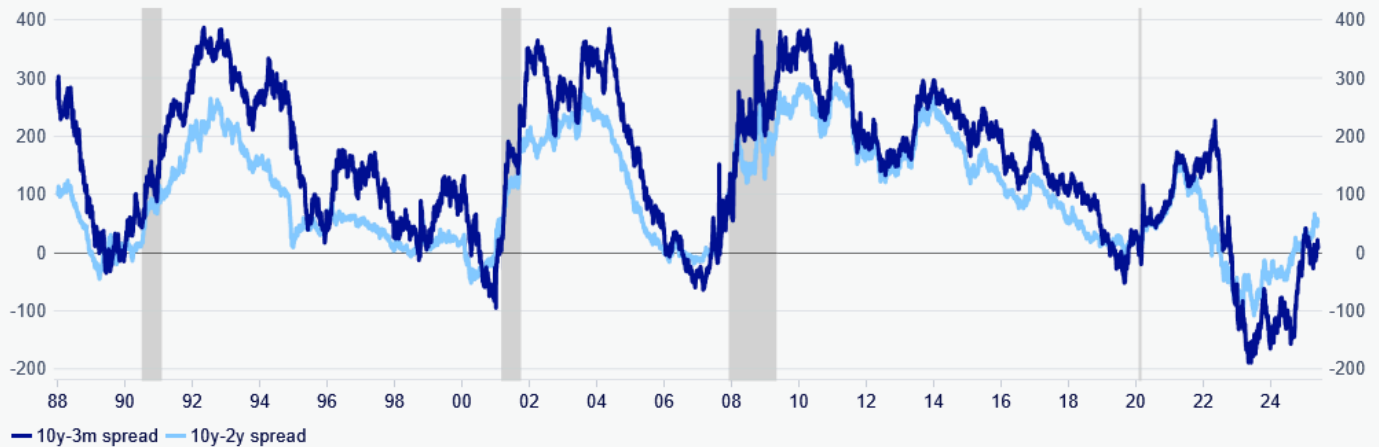
## ICE BOFAML MOVE INDEX (BPS)



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

In this context, the usual signal of yield curve steepening during rate cut cycles—often linked to improving growth prospects—could be clouded this time by a rising term premium that is behind elevated...

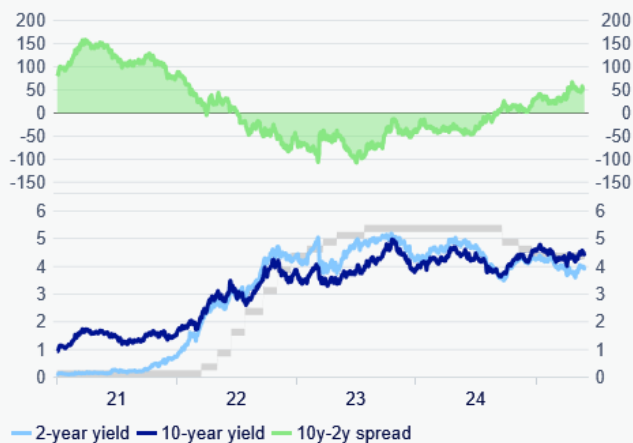
## TREASURY YIELD SPREADS (BPS)



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

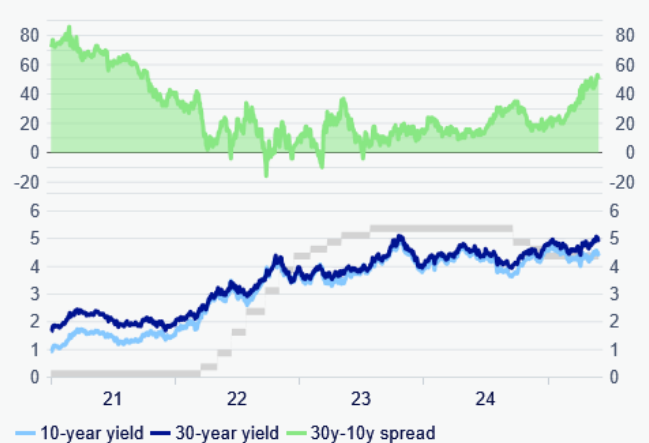
... long-term yields. In other words, the widening of the 10y-30y Treasury yield spread is reflecting more concern about long-term risks for the U.S. economy rather than optimism about future growth

## 10Y-2Y TREASURY YIELD SPREAD (BPS AND %)



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

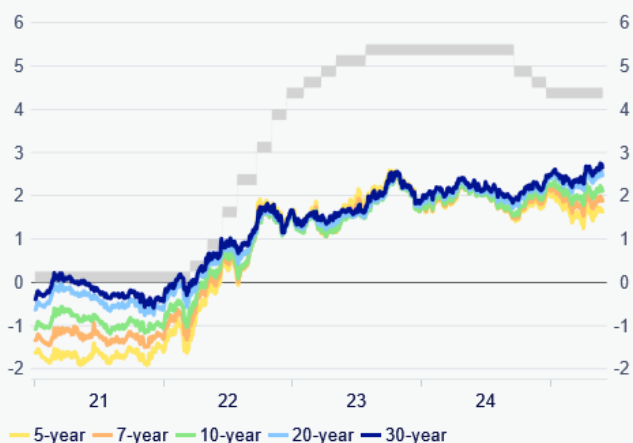
## 10Y-30Y TREASURY YIELD SPREAD (BPS AND %)



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

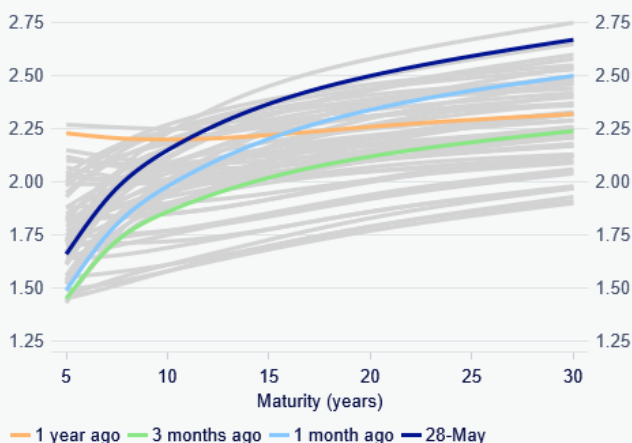
While a sudden loss of the U.S. dollar's dominance in global financial markets remains unlikely in the near to medium term, the rising risk compensation demanded by investors could push the global equilibrium...

### TREASURY REAL YIELDS (TIPS) (%)



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

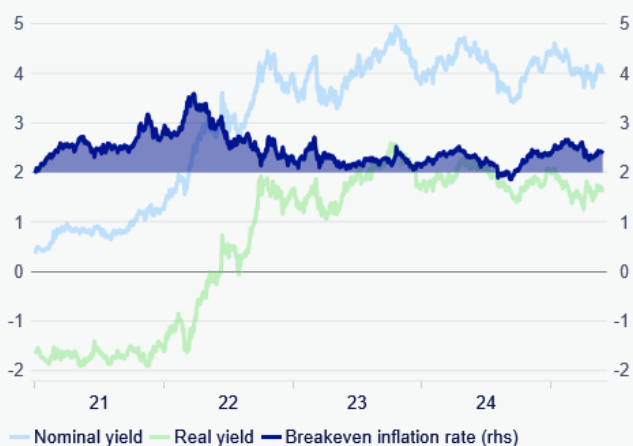
### TREASURY REAL YIELD CURVE (TIPS) (%)



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

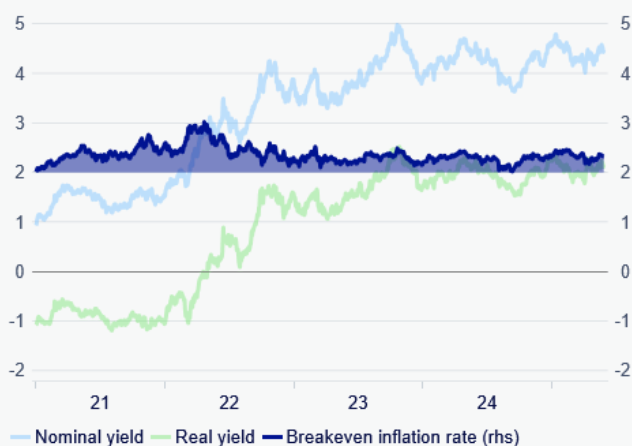
... of real rates higher. Despite continued pessimism in consumer and business sentiment surveys, market-based measures of long-term inflation expectations remain well anchored—indicating...

### 5-YEAR TREASURY BREAKEVEN INFLATION RATE (%)



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

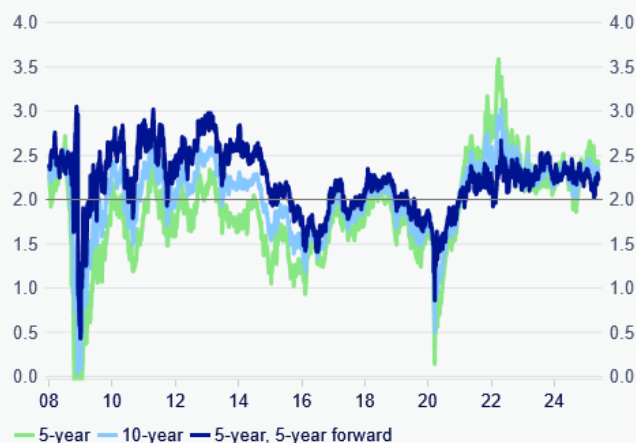
### 10-YEAR TREASURY BREAKEVEN INFLATION RATE (%)



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

... sustained confidence that the Fed will preserve its independence and stick to its price stability goal. This reinforces the idea that the upward pressure on long-term rates is being driven primarily by a...

### BREAKEVEN INFLATION RATES (%)



Source: BBVA Research / Treasury Dept.

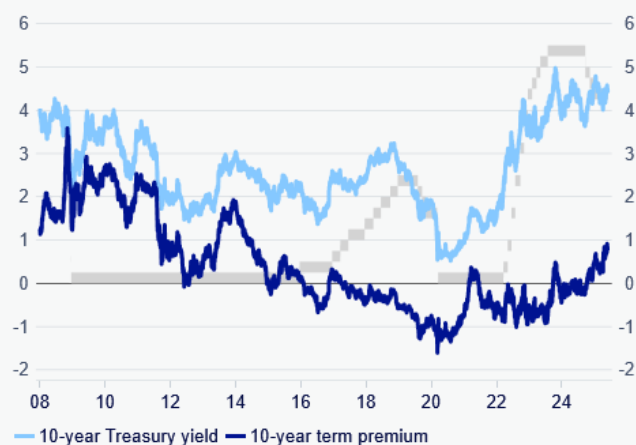
### BREAKEVEN INFLATION AND FUTURES-IMPLIED FED FUNDS RATE (%)



Source: BBVA Research / CME / Treasury Dept.

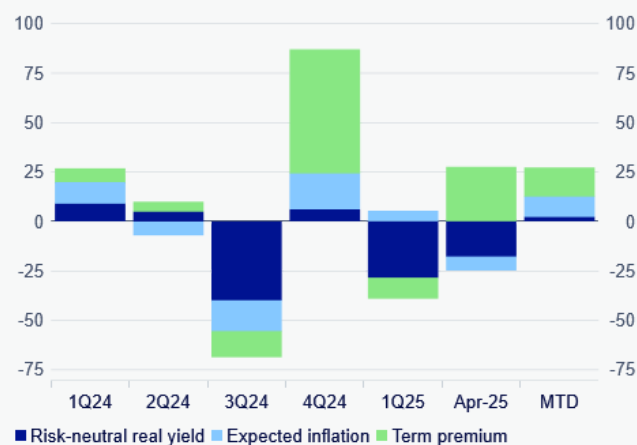
... higher term premium, which has accounted for just over 40 bps of the increase in the 10-year yield since April. Easing recession concerns amid the recent de-escalation in trade tensions—further...

### 10-YEAR TREASURY YIELD AND TERM PREMIUM (BPS)



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

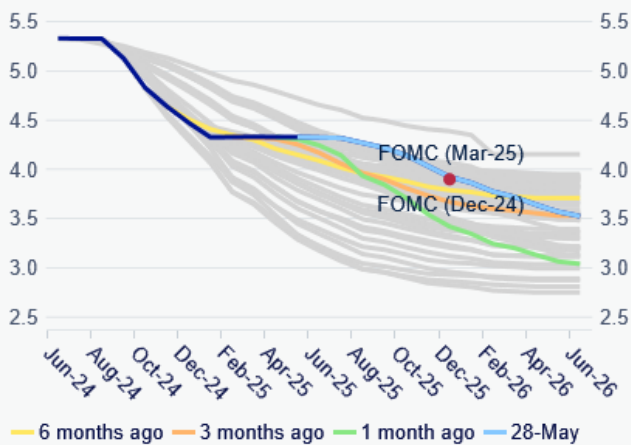
### 10-YEAR TREASURY YIELD CHANGE BREAKDOWN (BPS)



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

... reinforced by yesterday's court ruling against certain tariffs—has led markets to align with the Fed's view that there is "no hurry" to shift the current monetary policy stance

## FUTURES-IMPLIED FED FUNDS RATE (%)



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

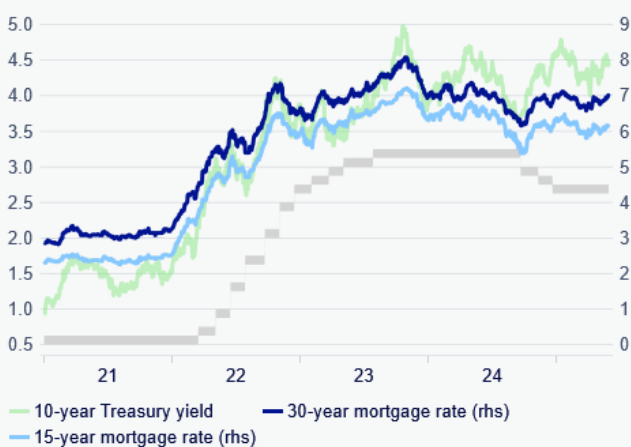
## FUTURES-IMPLIED FED FUNDS RATE (%)



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

Elevated Treasury yields are still weighing on the housing market, where mortgage rates have remained virtually flat since early Nov, while the recent pressure on corporate spreads appears to have eased

## MORTGAGE RATES (%)



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

## CORPORATE BOND YIELD SPREADS (%)



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 spike in certain financial stress indicators following the "Liberation Day" announcement has since reversed, and most broad financial conditions continue to suggest that markets are functioning smoothly

### CHICAGO FED NATL. FIN. CONDITIONS INDEX (>0: TIGHTER THAN AVG.)



Source: BBVA Research / Fed

### ST. LOUIS FED FINANCIAL STRESS INDEX (>0: ABOVE AVG. FINANCIAL STRESS)



Source: BBVA Research / Fed

This reinforces the Fed's "wait-and-see" approach, as the current moderately restrictive monetary policy stance does not appear to be placing undue strain on the gears of the financial system

### KANSAS CITY FED FINANCIAL STRESS INDEX (>0: ABOVE AVG. FINANCIAL STRESS)



Source: BBVA Research / Fed

### OFR\* FINANCIAL STRESS INDEX (>0: ABOVE AVG. FINANCIAL STRESS)



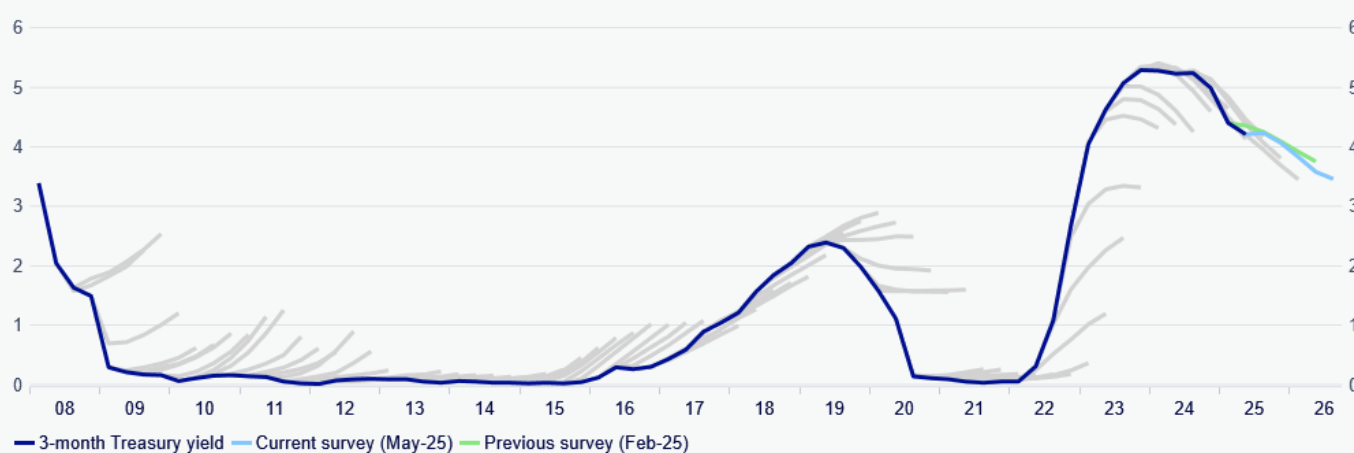
\* OFR: Office of Financial Research  
Source: BBVA Research / Treasury Dept.



## The May survey of professional forecasters showed little change in median Treasury yield forecasts compared to February

Professional forecasters' projections for short-term yields remained broadly unchanged suggesting they continue to align with the Fed's "wait-and-see" stance amid lingering uncertainty

### PROFESSIONAL FORECASTERS 3-MONTH TREASURY YIELD EXPECTATIONS (%)



The fact that long-term Treasury yields were revised down only slightly suggests that analysts still expect term premium pressures to persist, keeping the 10-year yield from falling below 4%

### PROFESSIONAL FORECASTERS 10-YEAR TREASURY YIELD EXPECTATIONS (%)



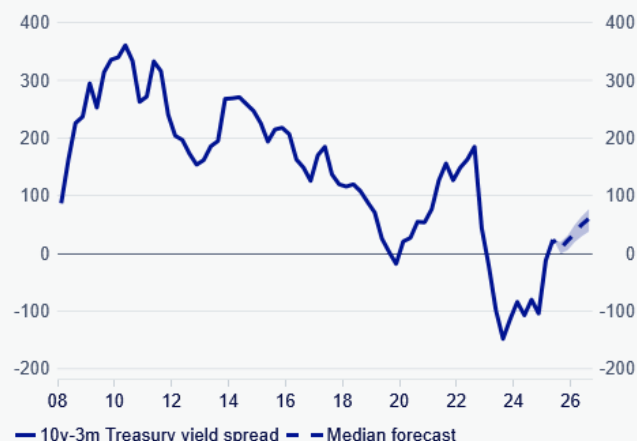
The eventual resumption of the rate-cut cycle, expected sometime in the second half of the year, continues to be reflected in the implied expectation of a sustained steepening of the yield curve

### PROFESSIONAL FORECASTERS TREASURY YIELDS EXPECTATIONS (%)



Source: BBVA Research / Fed

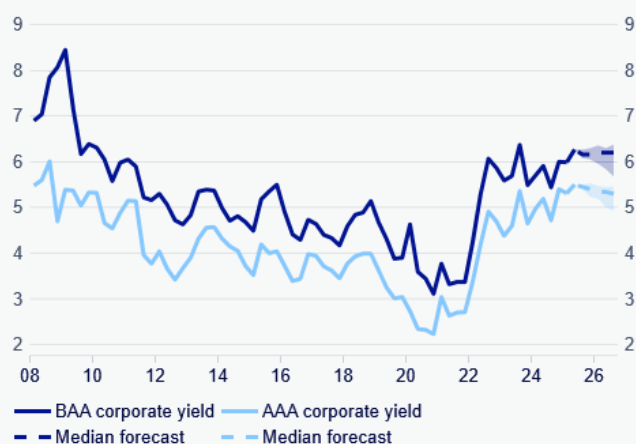
### PROF. FORECASTERS IMPLIED 10Y-3M YIELD SPREAD EXPECTATIONS (%)



Source: BBVA Research / Fed

A modest upward revision was made to investment-grade bond yield projections, but implied spread expectations remained contained, pointing to stable credit risk perceptions despite uncertainty

### PROFESSIONAL FORECASTERS CORPORATE YIELDS EXPECTATIONS (%)



Shaded areas indicate interquartile ranges  
Source: BBVA Research / Fed

### PROF. FORECASTERS IMPLIED CORP. YIELD SPREADS EXPECTATIONS (%)



Spreads over the 10-year Treasury yield. Shaded areas indicate interquartile ranges. Source: BBVA Research / Fed / Treasury

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