

Treasury yields display elevated sensitivity to geopolitical risks

Javier Amador, Iván Fernández

The limited market reaction after Powell's firm response to DOJ suggests investors have little confidence in the lawsuit's success

The announcement of a US-NATO "framework" deal around Greenland eased pressure on Treasury yields; they continue to trade amid unusually low volatility ([Figure 8](#)).

Growing expectations that the Fed will keep rates unchanged while Powell remains as Chair are likely to prevent a further steepening of the yield curve in the coming months ([Figure 9](#)).

The 10-year term premium continues to hover around 80 bps ([Figure 16](#)), while the dollar shows no clear signs of recovering from last year's accumulated depreciation ([Figure 17](#)).

US growth resilience and chances that Powell remains on the FOMC are likely bolstering market perceptions that there is limited downside for the policy rate this year ([Figures 18 and 19](#)).

Mortgage rates declined following the directive for GSEs to buy \$200bn in MBS ([Figure 20](#)) and narrow credit spreads reflect a still healthy debt market ([Figure 21](#)).

Treasury yields were largely range-bound for much of the past month amid the holiday season, before a recent uptick that pushed the 10-year yield to a five-month high on rising concerns...

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



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

... over the potential escalation of geopolitical tensions related to Greenland

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

... the Fed's independence, after Powell himself revealed the DOJ launched...

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



Source: BBVA Research / Treasury Dept.

The start of 2026 also brought a renewed intensification of risks to ...

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



Source: BBVA Research / Treasury Dept.

... a criminal investigation citing cost overruns tied to the Fed's headquarters renovation

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



Source: BBVA Research / Treasury Dept.

The muted market impact following Powell's stark message against setting interest rates...

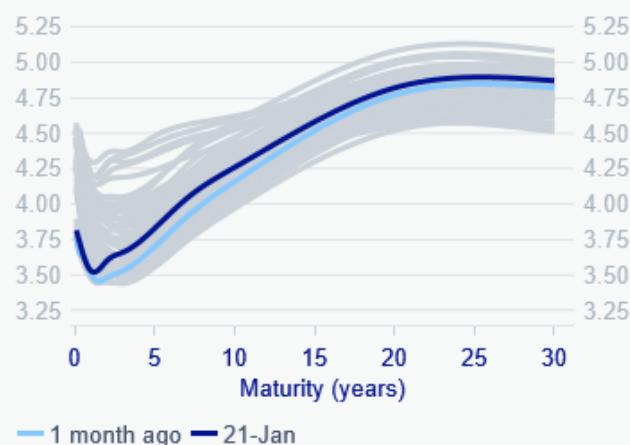
FIGURE 6. TREASURY YIELDS (%)



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

... “following the preferences of the President” likely reflects low confidence in the lawsuit's...

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.

... prospects. Yesterday's announcement of a US-NATO “framework” deal around Greenland eased pressure on Treasuries, pushing yields slightly lower; they continue to trade amid unusually low volatility

FIGURE 8. ICE BOFAML MOVE INDEX (INDEX POINTS)



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

Growing expectations that the Fed will keep the fed funds rate unchanged while Powell remains as Chair are likely to prevent a meaningful further steepening of the yield curve in the coming months. However, ...

FIGURE 9. TREASURY YIELD SPREADS (BPS)



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

... attention will remain focused on spread dynamics at the long end of the curve, with...

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



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

... any widening likely signaling growing fiscal and policy concerns

FIGURE 11. 30Y-10Y TREASURY YIELD SPREAD (BPS AND %)



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

Real yields had risen in recent days amid US–Europe tensions ahead of Davos, though...

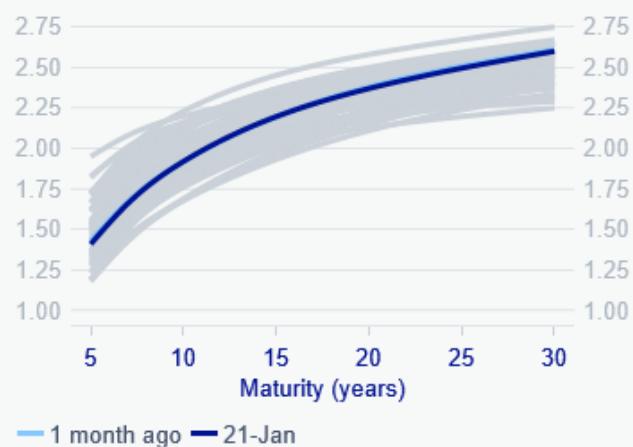
FIGURE 12. TREASURY REAL YIELDS (TIPS) (%)



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

... yesterday's pullback left the curve broadly unchanged from last month

FIGURE 13. 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.

The largest contribution to the change in the nominal 10-year yield this year has come...

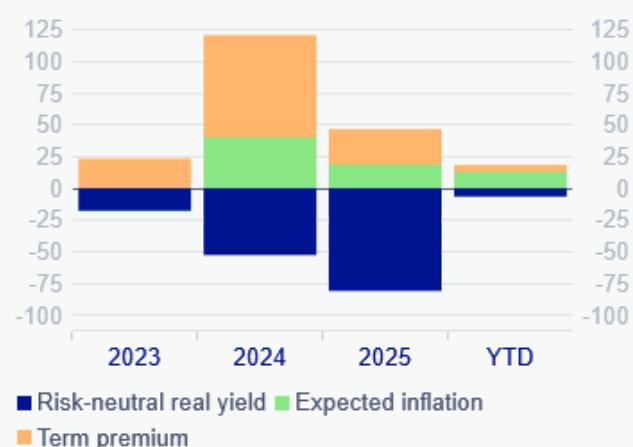
FIGURE 14. BREAKEVEN INFLATION RATES (%)



Source: BBVA Research / Treasury Dept.

... from inflation compensation, consistent with the recent evolution of inflation expectations

FIGURE 15. 10-YEAR TREASURY YIELD CHANGE BREAKDOWN (BPS)



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

The 10-year term premium continues to hover around 80 bps, while the dollar shows no...

FIGURE 16. 10-YEAR TREASURY YIELD BREAKDOWN (%)



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

... clear signs of recovering from last year's accumulated depreciation

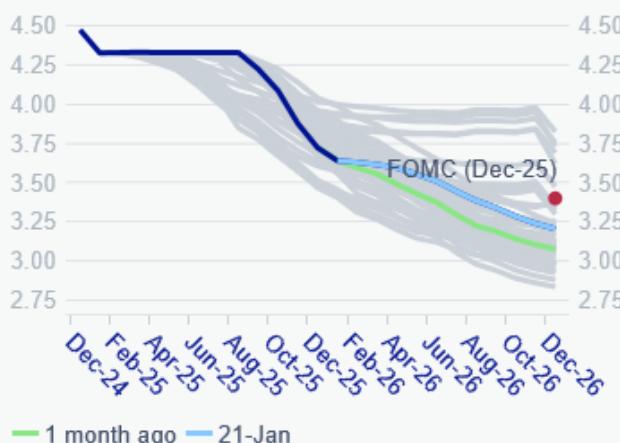
FIGURE 17. 10-YEAR TREASURY YIELD & DXY INDEX (% & INDEX POINTS)



Source: BBVA Research / ICE / Treasury Dept.

US growth resilience and chances that Powell remains on the FOMC are likely bolstering...

FIGURE 18. FUTURES-IMPLIED FED FUNDS RATE (%)



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

... market perceptions of limited downside for the policy rate this year

FIGURE 19. FUTURES-IMPLIED FED FUNDS RATE (%)



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

Mortgage rates declined following the directive for GSEs to buy \$200bn in MBS

FIGURE 20. MORTGAGE RATES (%)



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

Narrow credit spreads reflect a still healthy debt market

FIGURE 21. 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 front-loading of the Fed's T-bill purchases that began last month is starting to translate...

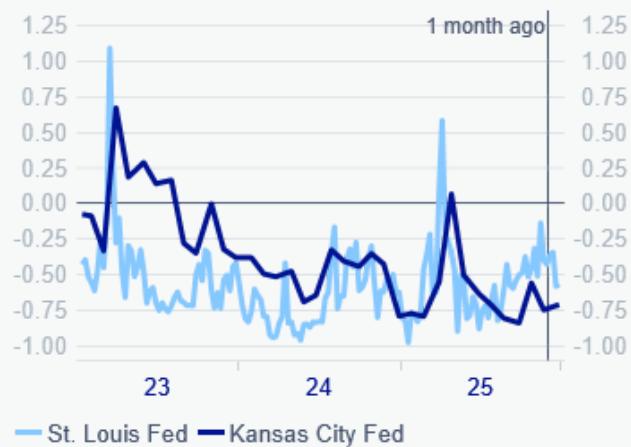
FIGURE 22. MONEY MARKET RATE SPREADS (BPS)



Spreads over the midpoint target fed funds rate
Source: BBVA Research / Fed

... into a stabilization of money market conditions

FIGURE 23. FED FINANCIAL STRESS INDEXES (>0: ABOVE AVG. FIN. STRESS)



Source: BBVA Research / Fed

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