

# Market-implied Fed path remains unchanged despite lower yields

Javier Amador, Iván Fernández

## Market conditions remain supportive, with volatility contained and reserve management purchases underpinning funding markets

The recent curve downshift ([Figure 7](#)) driven by January’s soft headline CPI print could reverse if the “meaningful” risk of inflation running persistently above target begins to materialize.

Bond market volatility has edged up from last month’s lows, though it remains well below its historical average, indicating little sign of stress in the Treasury market ([Figure 8](#)).

The downshift in the real yield curve ([Figure 13](#)) suggests that the recent drop in nominal yields is partly driven by a term premium repricing, which fell to its lowest in three months ([Figure 16](#)).

The futures market remains aligned with the Fed’s well-telegraphed plan to extend the pause in its rate-cutting cycle over the coming meetings ([Figures 18](#) and [19](#)).

The 30-year mortgage rate hit its lowest in 3.5 years ([Figure 20](#)), while still historically low corporate spreads have shown a slight upward trend over the past month ([Figure 21](#)).

Treasury yields declined following a softer-than-expected January headline CPI reading, which continued to indicate limited tariff pass-through. However, the inflation report also signaled that disinflation...

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



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

... momentum in cyclical components (i.e., core services) has somewhat slowed. This should...

**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

... leave the FOMC cautious stance intact given upside inflation risks. Indeed, these risks...

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



Source: BBVA Research / Treasury Dept.

... were explicitly acknowledged at the latest meeting, where "most participants" warned...

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



Source: BBVA Research / Treasury Dept.

... that further progress "might be slower and more uneven than generally expected," with...

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



Source: BBVA Research / Treasury Dept.

... a “meaningful” risk of inflation running persistently above target. Should these risks...

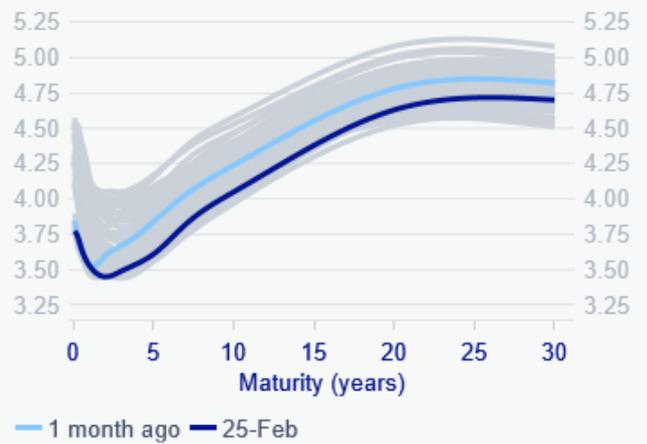
**FIGURE 6. TREASURY YIELDS (%)**



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

... begin to materialize, the recent curve downshift could reverse

**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.

Bond market volatility has edged up from last month’s lows, though it remains well below its historical average, indicating little sign of stress in the Treasury market

**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

The roughly 20bp decline in the 10-year yield over the past month, together with the Fed's Jan pause, has led to a modest flattening of the curve, reflected in the recent narrowing of 10-year yield spreads...

**FIGURE 9. TREASURY YIELD SPREADS (BPS)**



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

... relative to shorter maturities. Yet, the slope at the long end of the curve remains broadly...

**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.

... unchanged, reflecting the persistence of other perceived longer-term risks (e.g., fiscal)

**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.

In addition to reflecting a reassessment of market-implied inflation expectations over...

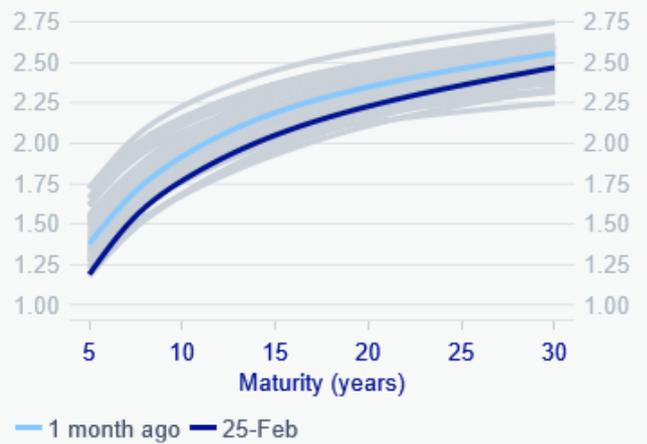
**FIGURE 12. TREASURY REAL YIELDS (TIPS) (%)**



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

... the past month, the corresponding downshift in the real yield curve...

**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.

... suggests that the recent drop in nominal yields is also partly attributable to...

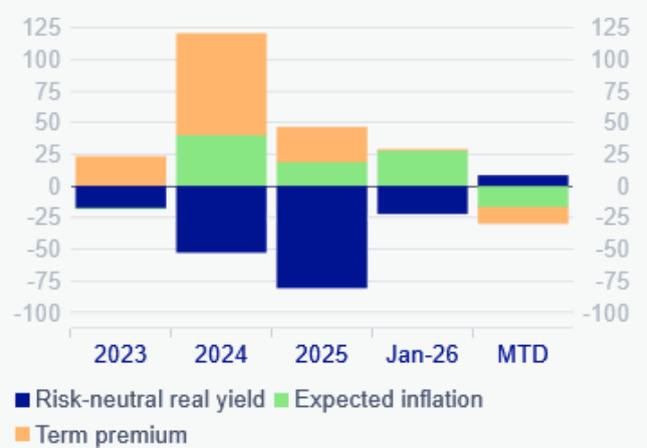
**FIGURE 14. BREAK-EVEN INFLATION RATES (%)**



Source: BBVA Research / Treasury Dept.

... term premium repricing, which this week fell to its lowest level in three months, ...

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



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

... likely reflecting last week's Supreme Court ruling invalidating IEEPA tariffs, which...

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



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

... may have helped alleviate concerns about the separation of powers in the US

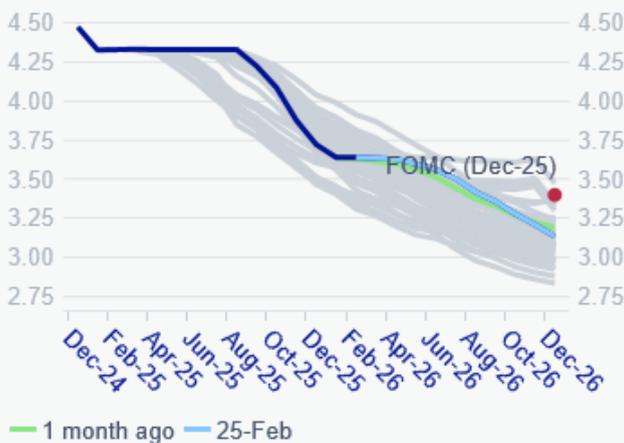
**FIGURE 17. 10-YEAR TREASURY YIELD & DXY INDEX (% & INDEX POINTS)**



Source: BBVA Research / ICE / Treasury Dept.

The futures market remains aligned with the Fed's telegraphed plan to extend the pause in...

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



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

... its rate-cutting cycle over the upcoming meetings, but still differs on 2H26 moves

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



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

The 30-year mortgage rate hit its lowest in three and a half years, while still historically...

**FIGURE 20. MORTGAGE RATES (%)**



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

... low corporate debt spreads have shown a slight upward trend over the past month

**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.

Money market conditions have stabilized in recent weeks, as the Fed continues its...

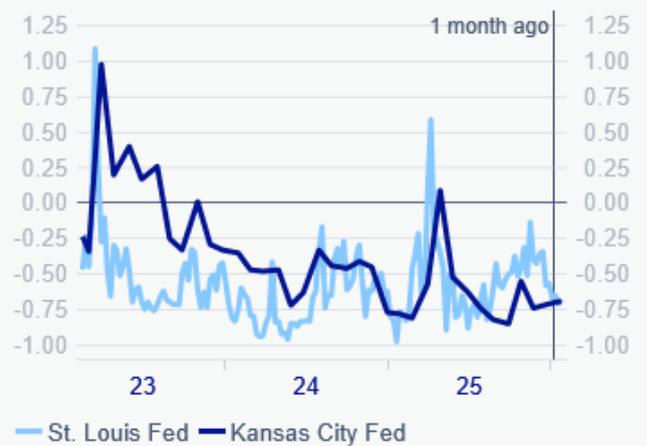
**FIGURE 22. MONEY MARKET RATE SPREADS (BPS)**



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

... reserve management purchases

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



Source: BBVA Research / Fed

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