

Markets reassess the Fed’s policy path amid higher oil prices

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The effects from the uncertainty around the Middle East conflict are seen as temporary, but enough to delay Fed easing

After hitting four-month lows in late February, Treasury yields across the curve surged in the past month to levels not seen since late July 2025 amid the new geopolitical development ([Figure 6](#)).

Renewed uncertainty over the duration and fallout of the Iran conflict has fueled volatility in the bond market, pushing it above its historical average for the first time in nine months ([Figure 8](#)).

Of the roughly 35bp average upward shift in the long-term segment of the nominal yield curve month to date ([Figure 7](#)), about 30 bps can be attributed to higher real yields ([Figure 13](#)).

While 5-year breakevens have edged higher alongside the recent rise in oil prices, the stability of the 5y5y forward measure suggests markets view this shock as temporary ([Figure 14](#)).

The eye-catching market reassessment of the monetary policy path shows increasing conviction that the scope for easing even under a new Fed leadership is constrained ([Figures 18 and 19](#)).

For a second straight meeting, the Fed held rates steady last week, flagging renewed risks tied to the Middle East conflict—now priced in by markets through higher medium- and long-term yields

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



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

Powell doubled down on a wait-and-see stance, citing uncertainty around the still ongoing...

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

... pass-through of tariffs to goods prices—now compounded by the risk that...

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



Source: BBVA Research / Treasury Dept.

... higher oil prices could lift inflation expectations—making a rate cut at his final...

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



Source: BBVA Research / Treasury Dept.

... FOMC meeting in April highly unlikely unless the labor market weakens materially

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



Source: BBVA Research / Treasury Dept.

After hitting 4-month lows in late February, Treasury yields across the curve surged...

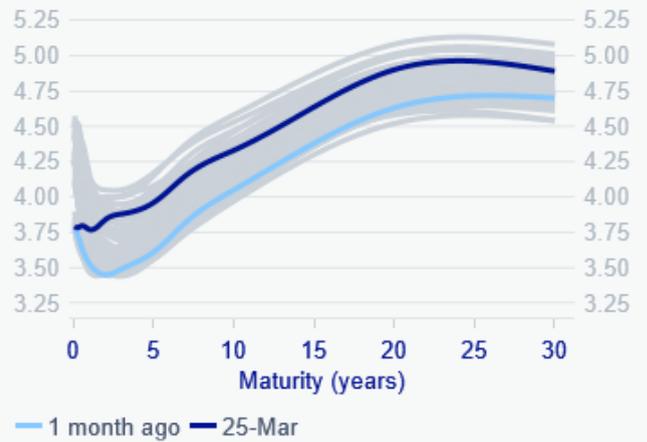
FIGURE 6. TREASURY YIELDS (%)



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

... to levels not seen since late July 2025. Renewed uncertainty over the...

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.

... duration and fallout of the Iran conflict has fueled volatility in the bond market, pushing it above its historical average for the first time in nine months

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

A largely parallel shift in the Treasury yield curve has restrained spread widening—with some key segments even tightening—amid both a repricing of the expected rate path and the view that, ...

FIGURE 9. TREASURY YIELD SPREADS (BPS)



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

... as a net energy exporter in recent years, higher oil prices pose a short-lived...

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.

... inflation risk rather than a meaningful threat to U.S. growth or its macro fundamentals

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.

Of the roughly 35bp average upward shift in the long-term segment of the nominal yield...

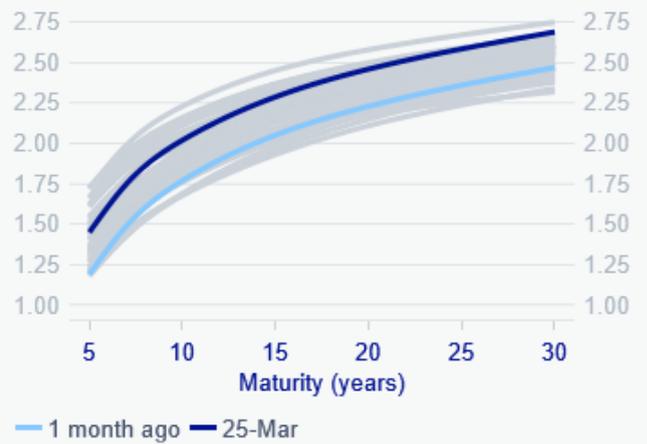
FIGURE 12. TREASURY REAL YIELDS (TIPS) (%)



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

... curve month to date, about 30 bps can be attributed to higher real yields

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.

While 5-year breakevens have edged higher alongside the recent rise in oil prices, the...

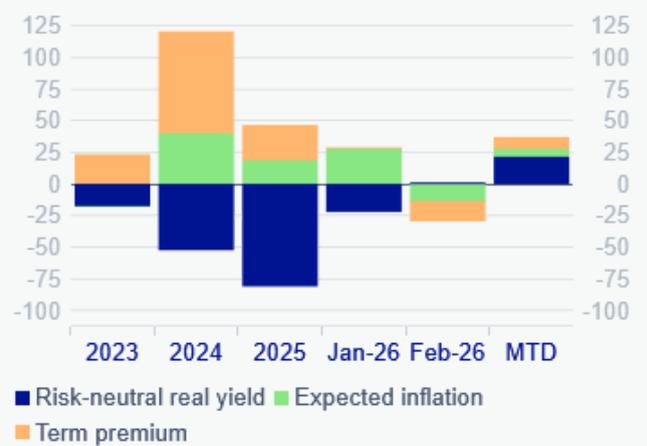
FIGURE 14. BREAK EVEN INFLATION RATES (%)



Source: BBVA Research / Treasury Dept.

... stability of the 5y5y forward measure suggests markets view this shock as temporary

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



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

The recent tightening in financial conditions—driven by higher long-term yields...

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



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

... and a stronger dollar—has in recent weeks been accompanied by a clear market...

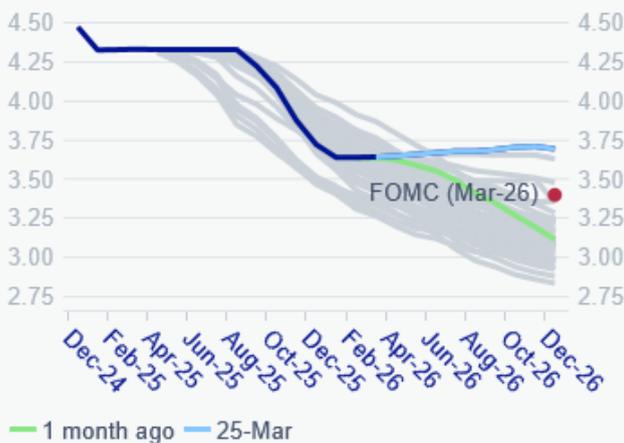
FIGURE 17. 10-YEAR TREASURY YIELD & DXY INDEX (% & INDEX POINTS)



Source: BBVA Research / ICE / Treasury Dept.

... reassessment of the monetary policy path, with investors increasingly convinced that...

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



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

... the scope for easing will remain constrained, even under a new Fed leadership

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



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

The escalation of the Iran conflict quickly reversed late-Feb's relief in mortgage rates

FIGURE 20. MORTGAGE RATES (%)



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

Debt spreads remained confined to a tight range, trading below their historical averages

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...

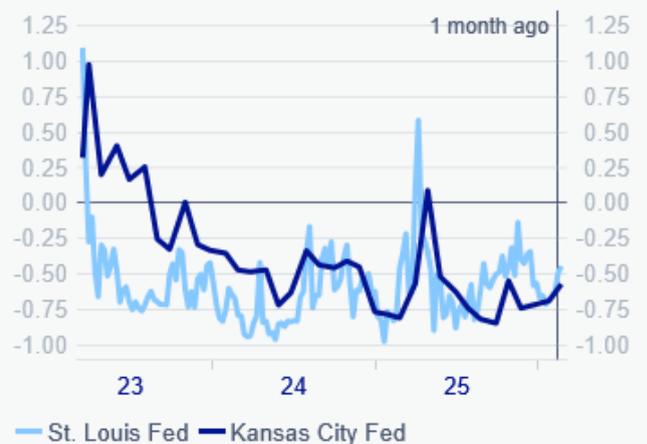
FIGURE 22. MONEY MARKET RATE SPREADS (BPS)



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)

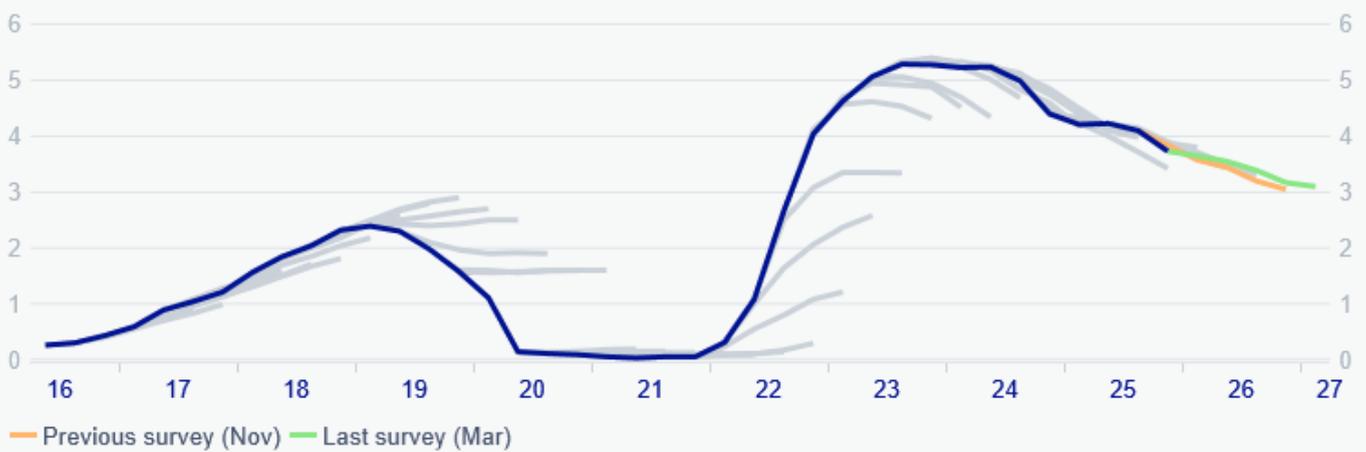


Source: BBVA Research / Fed

The March survey of professional forecasters showed little changes compared to November

The modest upward revision to median short-term rate projections left forecasters' views on the monetary policy path outdated since most survey responses were likely collected before March 2

FIGURE 24. PROFESSIONAL FORECASTERS 3-MONTH TREASURY YIELD EXPECTATIONS (%)



Median forecast
Source: BBVA Research / Fed

A similar pattern holds for the 10-year yield. Yet, the median forecaster was already expecting yields to stay at or above 4% throughout this year despite late-February's actual low

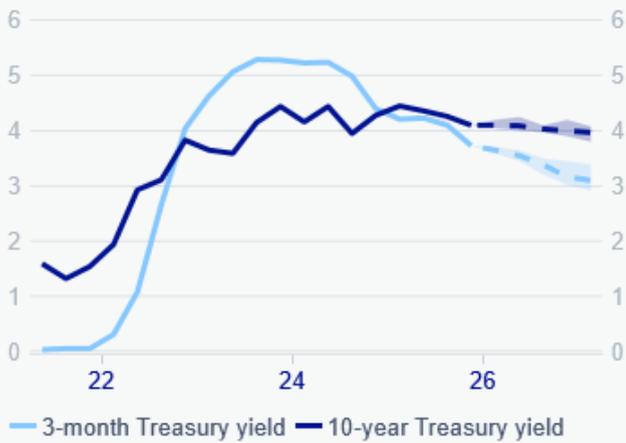
FIGURE 25. PROFESSIONAL FORECASTERS 10-YEAR TREASURY YIELD EXPECTATIONS (%)



Median forecast
Source: BBVA Research / Fed

The dispersion in policy path views points to a bias toward a scenario...

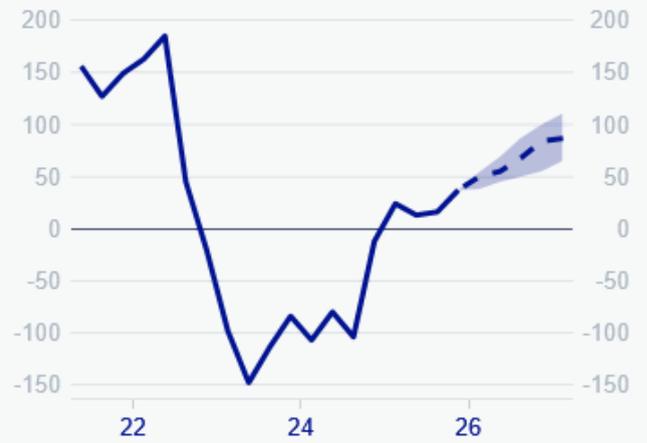
FIGURE 26. PROF. FORECASTERS TREASURY YIELDS EXPECTATIONS (%)



Shaded areas indicate interquartile ranges
Source: BBVA Research / Fed

... where the policy rate remains at or above neutral

FIGURE 27. PROF. F'CASTERS IMPLIED YIELD SPREAD EXPECTATIONS (BPS)



No stress is anticipated in corporate bonds, with forecasters...

FIGURE 28. PROF. FORECASTERS CORPORATE YIELDS EXPECTATIONS (%)



Shaded areas indicate interquartile ranges
Source: BBVA Research / Fed

... expecting the stability of the past couple of years to persist

FIGURE 29. PROF. F'CASTERS IMPLIED CORP. SPREADS EXPECTATIONS (%)



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

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