

Markets dial back Fed hike fears as tensions ease

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Lower volatility and improving sentiment leave room for a near-term Treasury rally if a definitive peace agreement is reached

The recently extended temporary US-Iran ceasefire has kept long-term Treasury yields confined to a relatively narrow range over much of the past month ([Figures 6 and 7](#)).

A definitive peace agreement could favor a near-term rally in Treasuries, particularly as the recent decline in volatility points to a liquid and largely unstrained market ([Figure 8](#)).

The dollar has given up much of the appreciation seen in recent weeks amid hopes for the end of the war, driving the recent recovery in risky assets elsewhere ([Figure 17](#)).

By late March, markets were pricing in roughly a 45% chance that the Fed would raise rates again before year-end, whereas today that likelihood is essentially negligible ([Figures 18 and 19](#)).

30-year mortgage rates, which had reached their lowest level since September 2022, have retraced about half of the roughly 60bp increase seen after the conflict outbreak ([Figure 20](#)).

Short-term yields have declined as markets reassess the Fed outlook and move away from pricing rate hikes this year, with the 2-year leading the adjustment and the long end moving more modestly

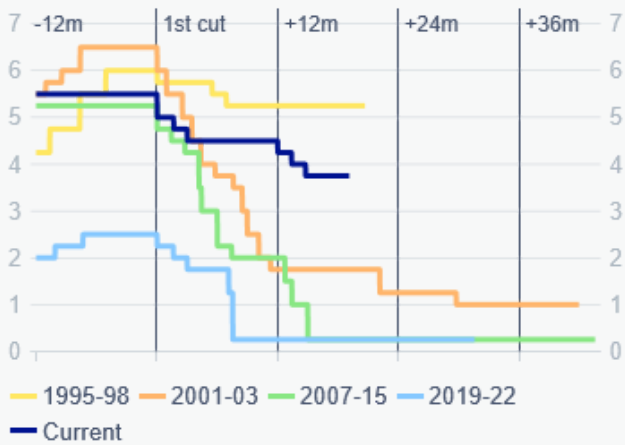
FIGURE 1. FED FUNDS RATE AND TREASURY YIELDS (%)



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

The March meeting minutes still reflected an easing bias among the FOMC, but they also...

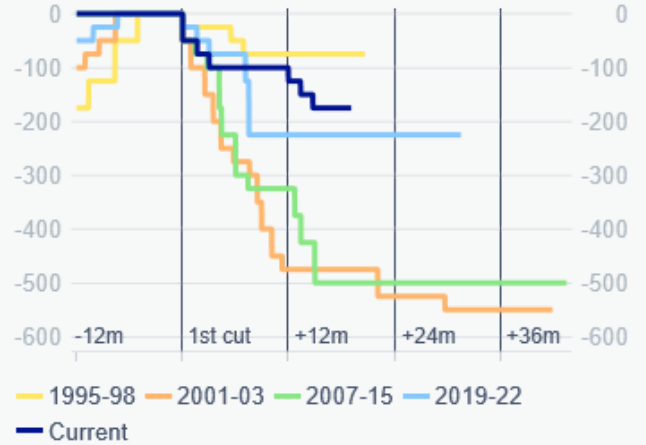
FIGURE 2. FED FUNDS RATE IN EASING CYCLES (%)



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

... showed increased concerns around the risk of inflation stickiness amid high oil prices, ...

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



Source: BBVA Research / Treasury Dept.

... with a vast majority of participants noting that further disinflation progress “could be...

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



Source: BBVA Research / Treasury Dept.

... slower than previously expected”. The recently extended temporary US-Iran...

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



Source: BBVA Research / Treasury Dept.

... ceasefire has kept long-term Treasury yields confined to a relatively narrow range over...

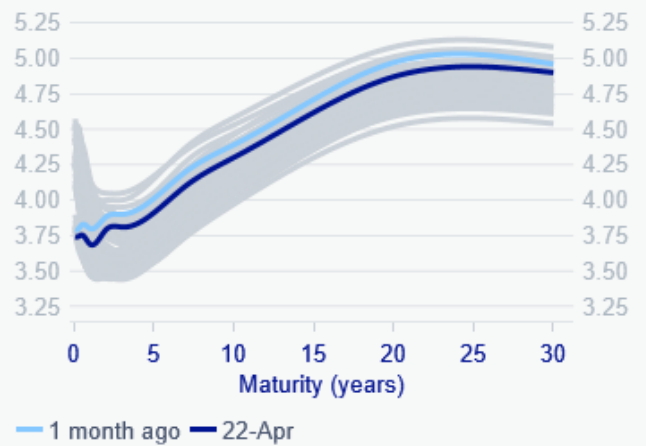
FIGURE 6. TREASURY YIELDS (%)



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

... much of the past month; more credible prospects for a definitive peace agreement...

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.

... ensuring the smooth resumption of oil flows through the Strait of Hormuz could favor a near-term rally in Treasuries, particularly as the recent decline in volatility points to a liquid and largely unstrained 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

Overall, spreads have remained broadly contained over the past month, with modest moves in key segments reflecting the reassessment of the expected Fed policy path—no longer pricing in hikes—and...

FIGURE 9. TREASURY YIELD SPREADS (BPS)



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

... indicating that markets continue to treat the fallout from the conflict as a temporary...

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 shock rather than a meaningful threat to US growth or broader 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.

The downshift in the Treasury real yield curve from its late-March peak largely reflects this...

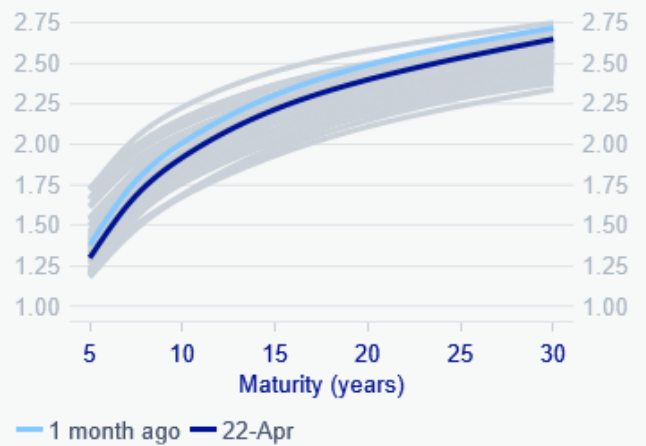
FIGURE 12. TREASURY REAL YIELDS (TIPS) (%)



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

... reassessment of the expected path of monetary policy, although it has been partly...

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.

... offset by modest increases in inflation expectations and the term premium, leaving...

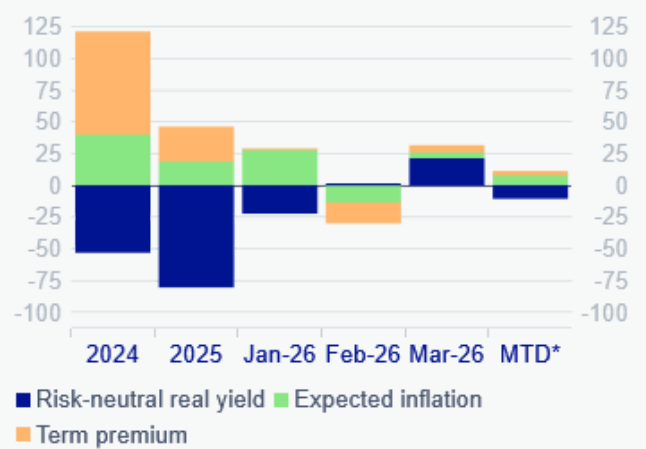
FIGURE 14. BREAK-EVEN INFLATION RATES (%)



Source: BBVA Research / Treasury Dept.

... the curve still above its late-February lows prior to the outbreak of the conflict

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



* Last: 16-Apr-26; based on the NY Fed ACM model
Source: BBVA Research / Fed / Treasury Dept.

The dollar has given up much of the appreciation seen in recent weeks amid...

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



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

... hopes for the end of the war, driving the recent recovery in risky assets elsewhere

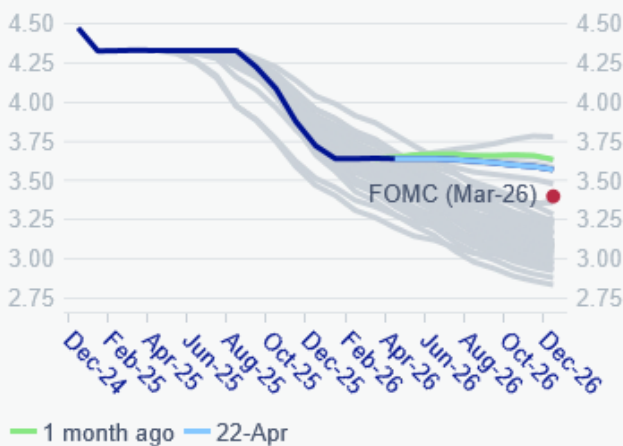
FIGURE 17. 10-YEAR TREASURY YIELD & DXY INDEX (% & INDEX POINTS)



Source: BBVA Research / ICE / Treasury Dept.

By late March, futures markets were pricing in roughly a 45% chance that the Fed would...

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



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

... raise rates again before year-end, whereas today, that likelihood is essentially negligible

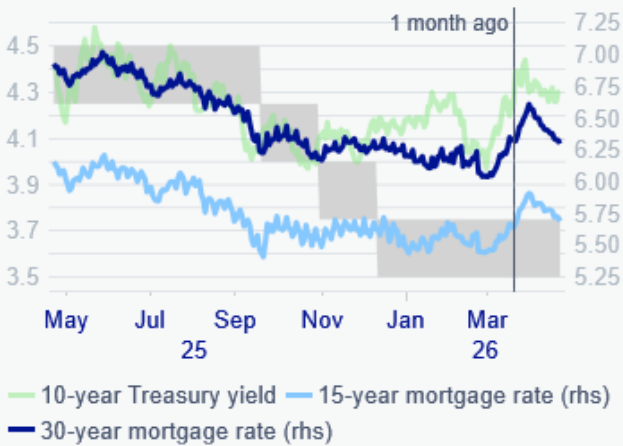
FIGURE 19. FUTURES-IMPLIED FED FUNDS RATE (%)



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

30-year mortgage rates, which had reached their lowest level since September 2022, ...

FIGURE 20. MORTGAGE RATES (%)



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

... have retraced about half of the roughly 60bp increase seen after the outbreak of the conflict

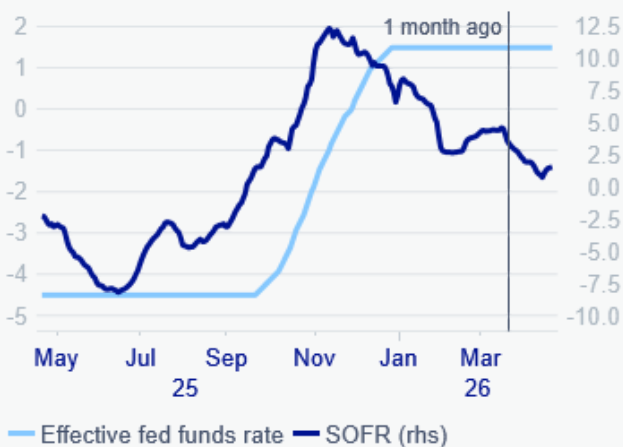
FIGURE 21. CORPORATE BOND YIELD SPREADS (%)



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 markets have continued to stabilize in recent weeks despite seasonal pressures...

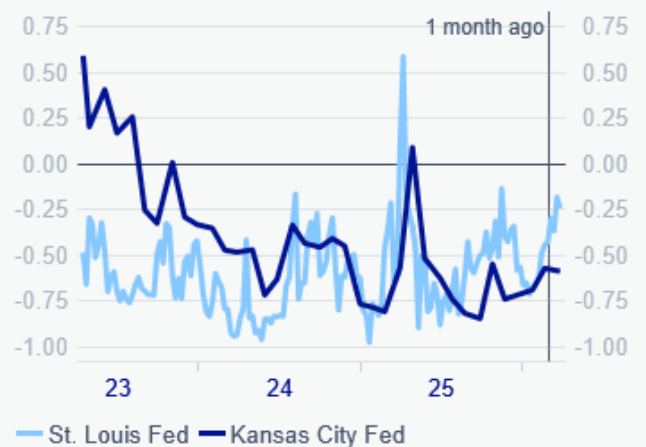
FIGURE 22. MONEY MARKET RATE SPREADS (BPS)



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

... from tax payments, supported by the Fed's ongoing reserve management purchases

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



Source: BBVA Research / Fed

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