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Treasury yields level off as markets await August data

Javier Amador, Iván Fernández

An elevated term premium keeps putting a high floor under longer-term yields, even as policy rate expectations cool

The CPI and payrolls reports due over the next two weeks will help determine whether the market's hiking bias, in place since May, is reinforced or fades further (Figures 4 and 5).

Despite the recent moderation in policy expectations, the bigger picture is that Treasury yields keep signaling that there's no room for the Fed to resume the easing cycle (Figures 6 and 7).

Real yields sitting near recent highs signal that a growing term premium, rather than a short-term reassessment of the inflation outlook is pushing rates higher (Figures 10 and 12).

Ahead of Warsh's Jackson Hole remarks tomorrow, subdued bond market volatility— well below historical averages —points to limited signs of financial strains (Figure 18).

The August Survey of Professional Forecasters showed that respondents now have a slight hiking bias and expect the 10-year Treasury yield to hover closer to 4.5% (Figure 21).

Treasury yields look to have stalled after July's surge. It seems that softer-than-expected July data left markets hesitant to take a strong directional view before August figures arrive

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

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

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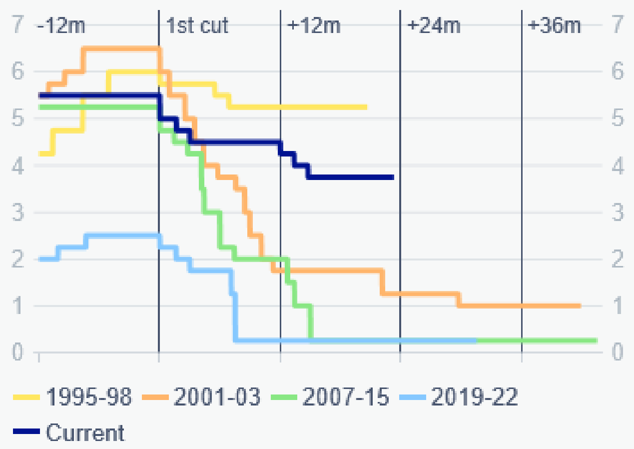
The easing cycle is approaching its two-year mark. The CPI and payrolls reports due over…

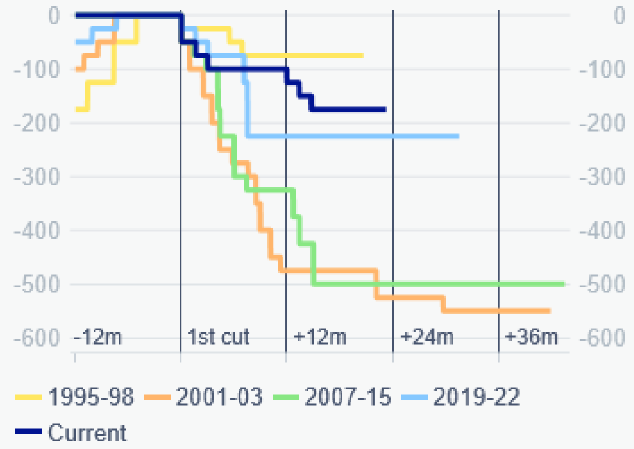
FIGURE 2. FED FUNDS RATE IN EASING CYCLES (%)



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 next two weeks, ahead of the Sep FOMC meeting, will help determine whether the…

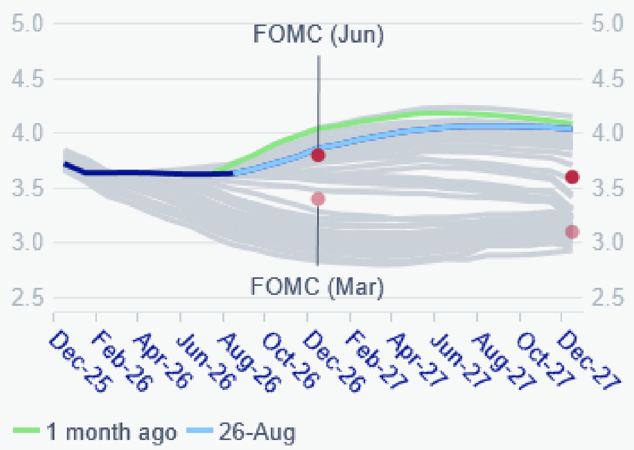
FIGURE 3. FED FUNDS RATE IN EASING CYCLES (BPS VS RATE AT FIRST CUT)



Source: BBVA Research, Treasury Dept.

… market's hiking bias, in place since May, is reinforced or fades further. The 2/3 chance…

FIGURE 4. FUTURES-IMPLIED FED FUNDS RATE (%)



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

… of a September hike priced in last month shifted toward a hold in recent weeks

FIGURE 5. FUTURES-IMPLIED FED FUNDS RATE (%)

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

Despite softer policy rate expectations, Treasury yields signal…

FIGURE 6. 2-YEAR TREASURY YIELD IN EASING CYCLES (%)

Source: BBVA Research, Treasury Dept.

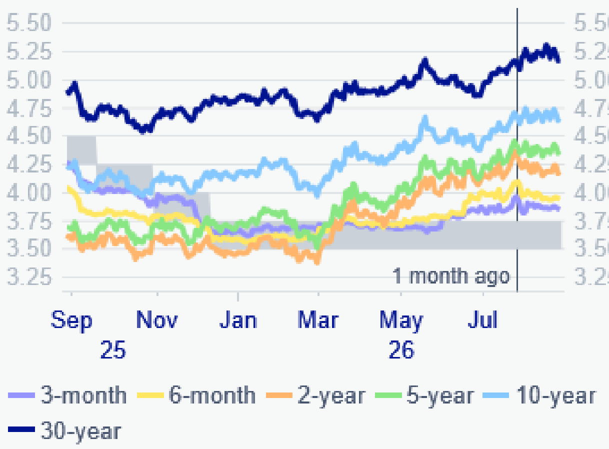
… there's no room for the Fed to resume the easing cycle

FIGURE 7. 10-YEAR TREASURY YIELD IN EASING CYCLES (%)

Source: BBVA Research, Treasury Dept.

Over the past month, upward pressure was mainly concentrated at the long end of…

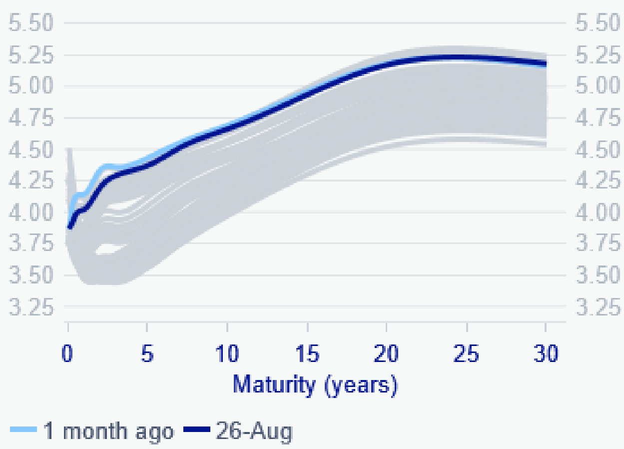
FIGURE 8. TREASURY YIELDS (%)



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

… the curve, with the 30-year Treasury yield reaching 5.31% two weeks ago. Real yields…

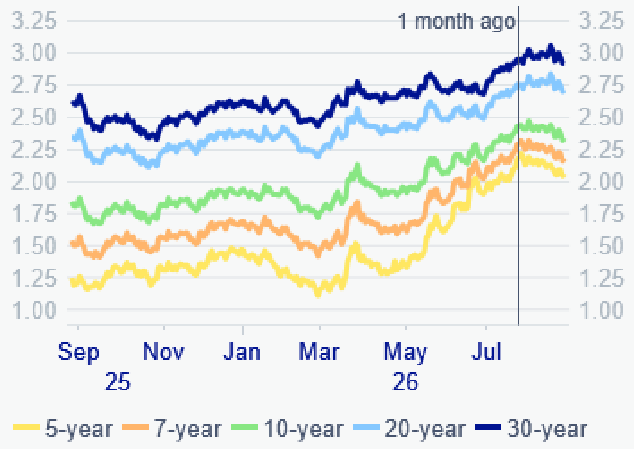
FIGURE 9. TREASURY YIELD CURVE (%)



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

… drove the rise in nominal rates, which remain close to their recent highs. This dynamic…

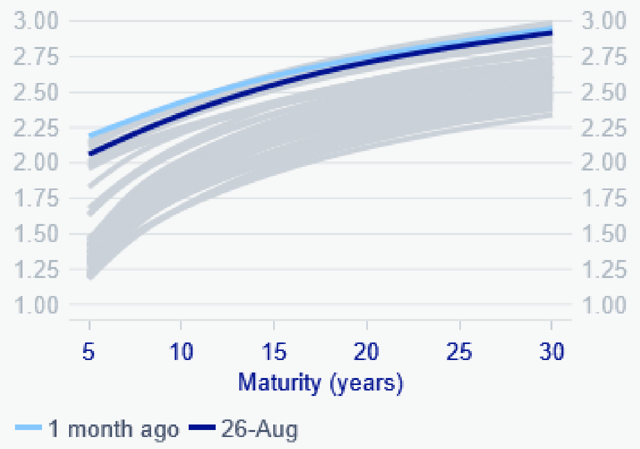
FIGURE 10. TREASURY REAL YIELDS (TIPS) (%)



Source: BBVA Research, Fed, Treasury Dept.

… indicates that a growing term premium, rather than a short-term reassessment of the…

FIGURE 11. 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.

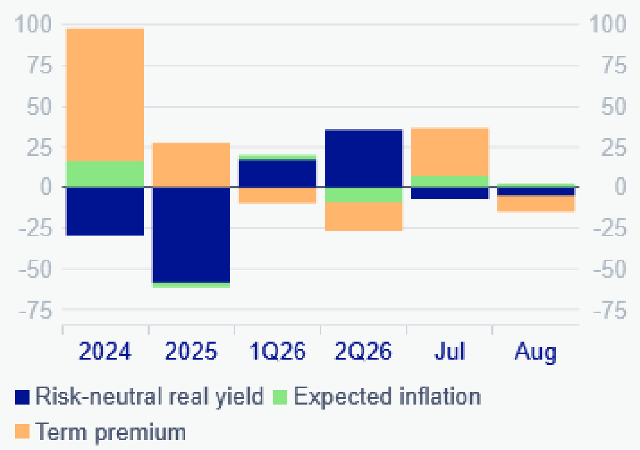
… inflation outlook is pushing rates higher. Yet, the July surge in the term premium…

FIGURE 12. BREAKEVEN INFLATION RATES (%)

Source: BBVA Research, Treasury Dept.

…has partially reversed so far this month, although its volatility will likely…

FIGURE 13. 10-YEAR TREASURY YIELD CHANGE BREAKDOWN (BPS)



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

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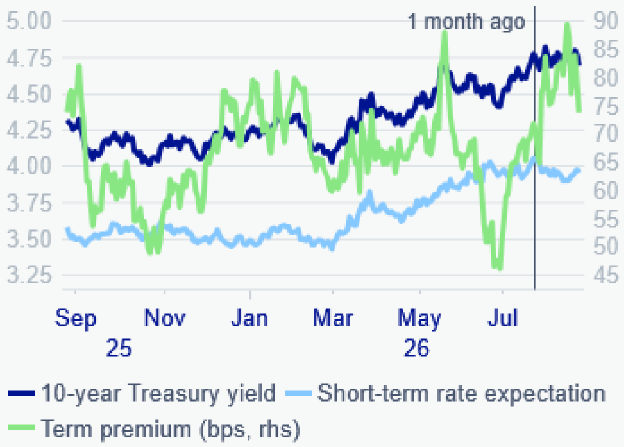
... remain heavily influenced by US trade policies and geopolitical developments

FIGURE 14. 10-YEAR TREASURY YIELD BREAKDOWN (%)



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

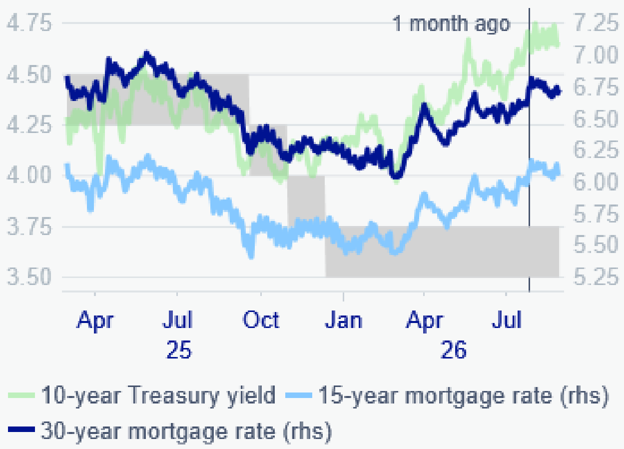
2026 is on track to mark the third straight year of a rising term premium

FIGURE 15. 10-YEAR TREASURY YIELD & DXY INDEX (% & INDEX POINTS)

Source: BBVA Research, ICE, Treasury Dept.

Mortgage rates have moved sideways but remain at their highest levels since mid-2025

FIGURE 16. MORTGAGE RATES (%)



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

Stress remains largely absent from the investment-grade corporate bond market

FIGURE 17. 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.

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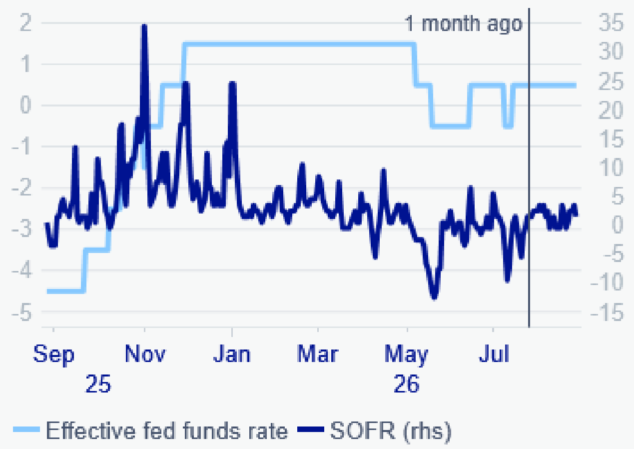
Ahead of Warsh's Jackson Hole remarks tomorrow, subdued bond market volatility— well below historical averages —points to continued orderly market functioning and limited signs of financial strains

FIGURE 18. 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

Broad measures of financial stress show limited evidence that a persistently high...

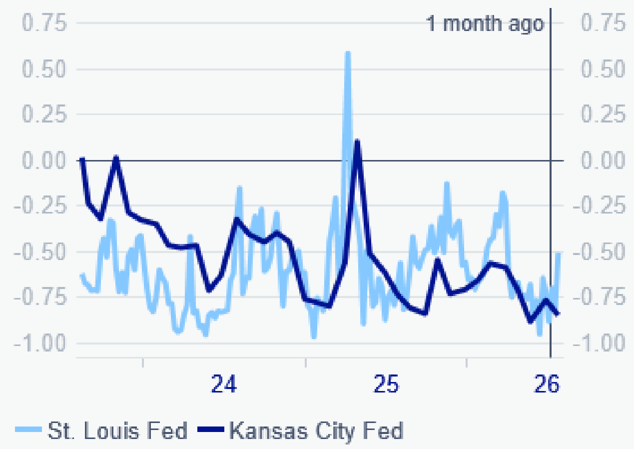
FIGURE 19. MONEY MARKET RATE SPREADS (BPS)



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

... interest-rate environment is generating broader strains

FIGURE 20. FED FINANCIAL STRESS INDEXES (>0: ABOVE AVG. FIN. STRESS)



Source: BBVA Research, Fed

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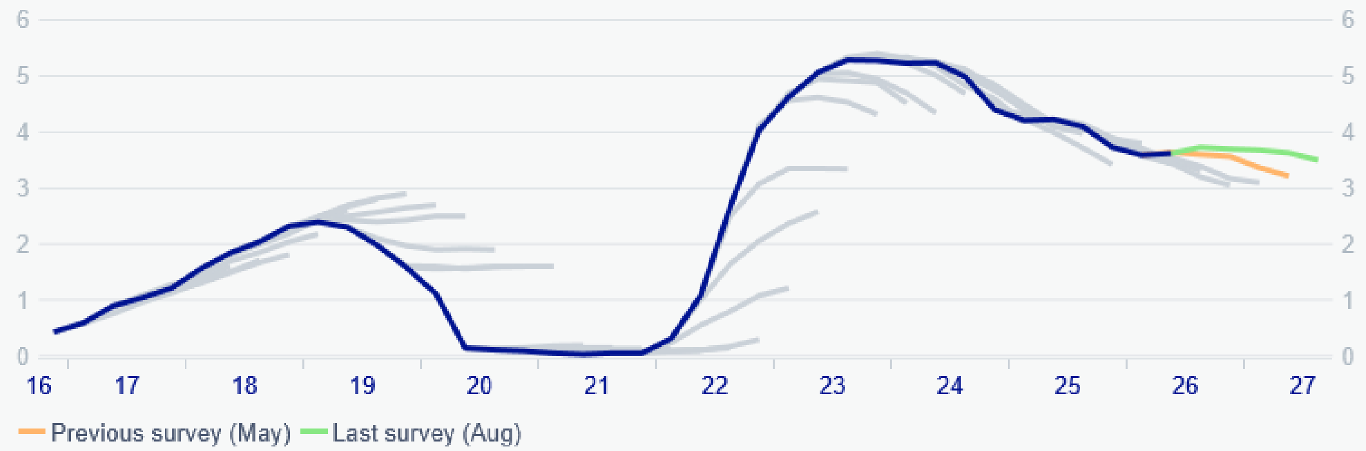
The August survey of professional forecasters showed that respondents now have a slight hiking bias

For the first time since the easing cycle began, the median forecast sees the 3-month Treasury yield higher next quarter, signaling a modest hiking bias, although without pointing to a sustained tightening cycle

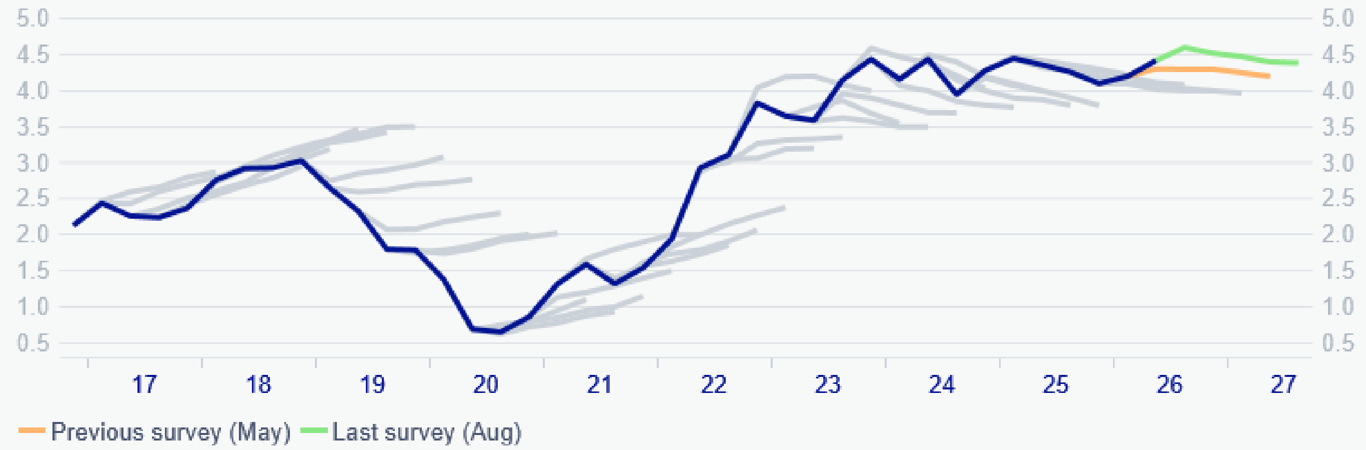
FIGURE 21. PROFESSIONAL FORECASTERS 3-MONTH TREASURY YIELD EXPECTATIONS (%)



Median forecast
Source: BBVA Research / Fed

July's sharp rise in the 10-year yield also led forecasters to lift their expected path closer to 4.5% than 4.0% throughout the forecast horizon, keeping projections above 4.2% into 2029

FIGURE 22. PROFESSIONAL FORECASTERS 10-YEAR TREASURY YIELD EXPECTATIONS (%)



Median forecast
Source: BBVA Research / Fed

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The combination of a modest hiking bias and persistently high longer-term yield...

FIGURE 23. PROF. FORECASTERS TREASURY YIELDS EXPECTATIONS (%)

Shaded areas indicate interquartile ranges
Source: BBVA Research / Fed

... expectations imply only limited changes in the expected shape of the Treasury yield curve

FIGURE 24. PROF. F'CASTERS IMPLIED YIELD SPREAD EXPECTATIONS (BPS)

The shaded area indicates the interquartile range
Source: BBVA Research / Fed

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

FIGURE 25. 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 26. 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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