
With rate cuts on the way, investors should consider taking advantage of current attractive yields. (UBS)

Is it still time to lock in bond yields?

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During his semiannual monetary policy testimony before Congress, Fed Chair Jerome Powell reiterated that policymakers will not cut rates until they have greater confidence that inflation is moving sustainably toward 2%. However, he indicated the level of confidence required for rate cuts "is not far."

UBS Chief Investment Office Key Message

Quality bonds, including high grade (government) and investment grade corporate bonds, are a key building block for portfolios. They offer attractive yields and should deliver capital appreciation if economic growth slows and inflation falls further, as we expect. Active and diversified bond exposure can also help mitigate specific risks and enable investors to realize the full return potential of the asset class.

US Treasuries have rallied in recent weeks.

- Yields on 10-year US Treasuries have fallen around 24 basis points to 4.08% between 22 February and 8 March.
- This came as Federal Reserve Chair Jerome Powell reiterated a rate cut is likely appropriate "at some point this year" during his semiannual monetary policy testimony before Congress.

We expect yields to fall further, benefiting quality bonds.

- We continue to believe quality bonds can advance this year as US inflation fades, growth slows, and the Fed cuts rates.
- We expect the 10-year yield to fall to 3.5% by December in our base case scenario.
- In addition to appealing yields, we see the potential for capital appreciation.

We advise locking in current high yields on quality bonds, and utilizing active bond strategies.

- We see the reinvestment risk from holding cash as being greater than the potential gains from waiting for better bond prices, as we see a clear asymmetry in the potential path for cash rates.
- We favor the 1- to 10-year duration segment, particularly the 5-year duration point, as this middle part of the yield curve offers the best combination of high yields, stability, and sensitivity to falling interest rate expectations.
- Investors should also consider exposure to actively-managed fixed income strategies to improve diversification.

UBS Chief Investment Office Investment View

With an attractive risk-return proposition, quality bonds offer a steady stream of income. While we think cash rates are likely to fall, current bond yields can be locked in, providing a more durable source of portfolio income over time.

For the full report, see: **UBS House View Briefcase Is it still time to lock in bond yields?**

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