



As markets start to price a more significant Fed rate-cutting cycle, bond yields should fall in the months ahead. (UBS)

Bond yields are likely to end the year lower

29 May 2024, 1:56 pm CEST, written by UBS Editorial Team

US Treasury yields rose to four-week highs on Tuesday after auctions of the 2-year and 5-year notes brought in USD 139bn of fresh supply. The yield on the 10-year US Treasury rose 7 basis points to 4.54%, and that on the 2-year bond was up 3 basis points to 4.98%. Comments from Minneapolis Fed President Neel Kashkari that further rate hikes are not yet ruled out also put pressure on the bond market.

CIO continues to believe that US sovereign yields should end the year lower as inflation and economic growth slow and the Fed cuts rates in the last months of the year. We expect the yield on the 10-year US Treasury to fall toward 3.85% as the year progresses, underpinning our most preferred view on fixed income.

US inflation should trend lower. US house prices edged up 0.1% month over month in March, a significant slowdown from the 1.2% rise in February, according to the latest data from the Federal Housing Finance Agency. On an annual basis, prices increased 6.7% in March after advancing 7.1% in February. We believe the softening housing market and the slowing price trend in new rental leases suggest that shelter inflation should continue to decelerate in the months ahead. While consumers' 12-month inflation expectations ticked up in the latest Consumer Confidence survey from the Conference Board, hard data continues to suggest that inflation should trend lower for the rest of this year following April's encouraging print.

The Fed remains on track for policy easing later this year. While Kashkari suggested rate cuts are not imminent, he also noted that the odds of the Fed raising rates "are quite low." This is in line with recent Fed communications on its patient approach, and echoed Chair Jerome Powell's view that the central bank's next move is unlikely to be a hike. With a softening labor market and slowing economic growth, we continue to expect the Fed to start policy easing in September, with a total of 50 basis points of rate cuts this year.

The pace of the Fed's balance sheet runoff is set to taper. Starting next month, the Fed will slow the pace of its quantitative tightening (QT) with a new monthly cap of USD 25bn on the sale of US Treasury securities, down from USD 60bn. We believe this should reduce upward pressure on real rates and drive the next leg lower in yields.

So, as markets start to price a more significant Fed rate-cutting cycle, bond yields should fall in the months ahead. We favor quality bonds within the fixed income space, and see value in complementing a core holding in quality bonds with a satellite in riskier credits to improve overall portfolio yields.

Main contributors - Solita Marcelli, Mark Haefele, Daisy Tseng, Frederick Mellors, Christopher Swann

Original report - [Bond yields are likely to end the year lower, 29 May 2024.](#)

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2023. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.