



CIO believes quality bonds offer appealing expected returns and potential for capital gains, and see value in diversified fixed income strategies, including senior loans. (UBS)

# CIO expects Treasury yields to decline in a lower-rate environment

16 December 2024, 2:30 pm CET, written by UBS Editorial Team US Editorial Team

**US Treasury yields rose to the highest level since late November last week, even though markets remain convinced that the Federal Reserve will cut interest rates further when the Federal Open Market Committee meets this week. The 10-year and 30-year yields rose 25 basis points and 28 basis points to 4.4% and 4.6%, respectively.**

The rise in yields pointed to renewed investor concerns over how US President-elect Donald Trump's potential policies could expand government borrowing while putting upward pressure on inflation. November's producer price index (PPI) release turned out stronger than expected, while the US Treasury's auction of USD 22bn of 30-year bonds met with soft demand.

But we see limited room for Treasury yields to rise much further and expect them to move lower in 2025, benefiting quality fixed income.

**Disinflation looks likely to continue, even if the path is as bumpy as it was this year.** While headline PPI inflation readings overshoot expectations, the core PPI and components that feed directly into the Fed's preferred inflation gauge were softer. November's consumer price index also showed slower increases in shelter costs on both a monthly and annual basis. We continue to believe that overall inflation should moderate further, and that potential tariffs should not lead to sustained higher inflation over the medium term. In fact, as the election in November demonstrated the high political cost

of inflation, we believe universal tariffs are less likely. Blanket tariffs through executive action would face legal challenges, and they are unlikely to garner enough support from Congress.

**The Fed should continue to lower interest rates in 2025, albeit at a slower pace.** We expect the US central bank to cut rates by 25 basis points this week, and by a more gradual once-per-quarter pace in 2025. Guidance on future easing remains to be seen, including policymakers' projection on the number of rate cuts for next year and where the terminal policy rate likely is. But with the Fed signaling its commitment to bring rates toward "neutral" against the backdrop of moderating inflation and a softening labor market, we believe further Fed easing should keep any rise in yields in check.

So while further volatility is likely, we expect Treasury yields to decline in a lower-rate environment. We believe quality bonds offer appealing expected returns and potential for capital gains, and see value in diversified fixed income strategies, including senior loans.

Main contributors: Solita Marcelli, Mark Haefele, Daisy Tseng, Frederick Mellors, Jason Draho

Original report: [Climb in Treasury yields should meet resistance, 16 December 2024.](#)

**The document and the information contained herein is intended for UBS internal use only and solely for the UBS employee to whom it was provided.** It may in no circumstances be distributed outside of UBS. Information contained in this document has not been tailored to the specific needs, investment objectives, personal and financial circumstances of a client or any other recipient outside of UBS. This document shall not be construed to include any legal or tax advice, investment research, sales prospectus, an offer or a solicitation of an offer to enter in any investment activity. Neither UBS nor its directors, employees or agents accept any liability for any loss or damage arising out of the use of all or any part of this document. For further information, please contact the document owner.

**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](http://www.ubs.com/workingwithus).

© UBS 2024. 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.