



(UBS)

# VIDEO: The Fed's effect on fixed income

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**With the recent Fed meeting behind us, we are beginning to see a reversal in rates. Is this the new trend, and if so, how should you position your portfolio?**

In this month's Fixed Income Strategist, "Going longer for higher," we discuss the shift in the Fed's policy suggesting a higher tolerance for inflation but lower tolerance for negative growth surprises, as well as our views on current credit valuations.

The Fed has removed the tail-risk of an additional hike, indicating "higher-for-longer" was the preferred path forward. The market reaction to this rhetoric, along with recently softening data, has been positive for the rates market.

We discuss our preference for adding duration at current levels, as disinflation trends and our expectation of two rate cuts this year will have yields trending toward 3.85% by year end.

We continue to recommend high-quality fixed income, but acknowledge that current valuations appear fully priced. Credit spreads are nearing all-time highs and have little room to compress further. With rates making up over 50% of credit yields, falling Treasuries will be a tailwind to total returns. At these levels we look for relative value opportunities and see agency MBS as cheap compared to other fixed income sectors.

Watch this video with Leslie Falconio, Head of Taxable Fixed Income Strategy, to learn more.

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