

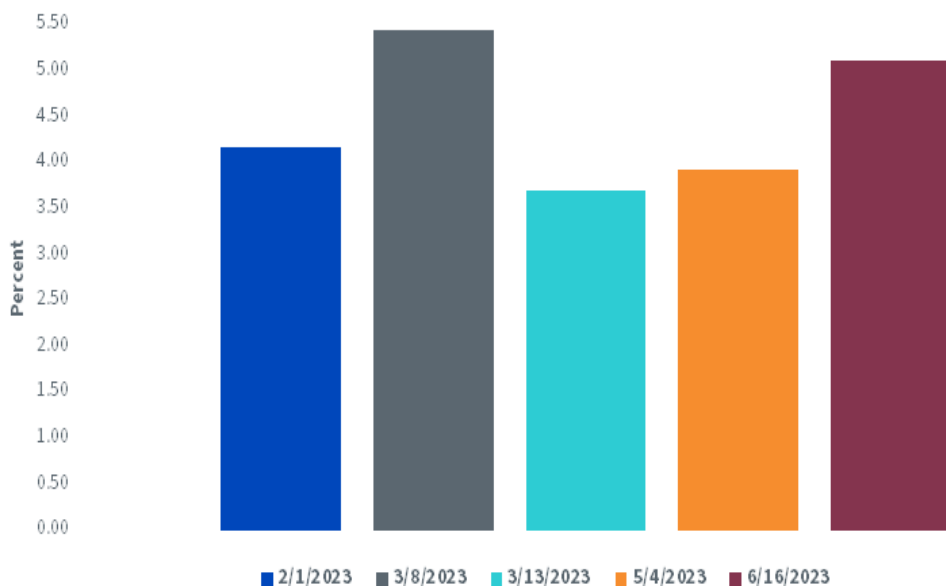
A NICE DOSE OF “DON’T FIGHT THE FED”

Kevin Flanagan – Head of Fixed Income Strategy
06/21/2023

Throughout this [Fed rate hike](#) cycle, there always seemed to be some sort of disconnect between what the policy makers were saying and what the money and [bond markets](#) were thinking. At various times, you got the sense it was a case of either “don’t fight the tape” or “don’t fight the Fed.” Based upon recent developments in the [Fed Funds Futures](#) arena and the [U.S. Treasury \(UST\)](#), it’s increasingly looking like a “sea change” in sentiment has occurred where “don’t fight the Fed” is now winning out.

Let’s first take a look at Fed Funds Rate expectations for the remainder of 2023 now that we’re in a post-June [FOMC](#) world. It has been truly remarkable to see how these expectations have shifted in just a very short time. Literally the day after the May Fed gathering, the implied [Fed Funds Rate](#) for January 2024 stood at 3.93%, or close to the lows that were being posted in the immediate aftermath of the regional banking fears around mid-March. As of this writing, the implied level has soared to 5.12%, or the mid-point of the current Fed Funds trading range, an incredible turnaround of nearly 120 [basis points \(bps\)](#). Essentially, the market went from pricing in more than 100 bps worth of rate cuts by the beginning of next year to a scenario of only one cut, “tops,” and that’s assuming the Fed raises rates one more time this year.

Implied Fed Funds Rates - Jan 2024



Source: Bloomberg, as of 6/16/23.

Needless to say, this shifting Fed rate outlook has also had a rather visible impact on UST yields. In terms of the widely followed 10-Year note, the yield has risen to just under 3.80% as I write this blog post, or about 45 bps from its low point in early May. While this is certainly a noteworthy increase, the spike in the UST 2-Year note yield

has been twice this amount over the last month or so. To provide perspective, the 2-Year yield has risen almost 95 bps and is trading around the 4.75% threshold. While the UST 2-Year yield has not made it back to its pre-regional-banking turmoil high watermark of 5.07%, this recent move may still have more upside, given the shifting Fed rate outlook (see graph).

U.S. Treasury Yields



Conclusion

It's fascinating to see that as we move into full summer mode, you don't hear much, if any, talk about rate cuts. What was at one point supposed to be a time when the Fed was going to begin pivoting toward rate cuts, the discussion has now changed to whether Powell & Co. will implement one or two rate increases before this hiking cycle is over. As we've seen time and time again, monetary policy dynamics in the money and bond markets can change quickly and in a very notable fashion, which keeps elevated [volatility](#) in play for the fixed income investor.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

Related Blogs

- + [The New Fed Debate: Skip vs. Pause or Pause vs. Cut?](#)
- + [Debt Ceiling: waiting for a Done Deal](#)
- + [Fed Watch: End of the Line?](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Bond market: The bond market—often called the debt market, fixed-income market, or credit market—is the collective name given to all trades and issues of debt securities. Governments typically issue bonds in order to raise capital to pay down debts or fund infrastructural improvements.

Fed fund futures: A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

Treasury: Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.

Federal Funds Rate: The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

Basis point: 1/100th of 1 percent.

Volatility: A measure of the dispersion of actual returns around a particular average level.