
DID THE FED CUT RATES WITHOUT TELLING ANYONE?

Kevin Flanagan — Head of Fixed Income Strategy

04/03/2019

The second half of March was certainly eventful for the [U.S. Treasury \(UST\)](#) market. Coming out of the recent [FOMC](#) meeting, the money and bond markets were elated that no more [rate hikes](#) appeared to be in the offing for 2019 from the [Federal Reserve \(Fed\)](#), so naturally, the only place to go from there is...rate cuts, right? Looking at Treasury [yields](#) now, one could easily come to the conclusion that the Fed already cut rates but forgot to tell anyone.

What exactly do I mean, you may ask? Well, let's take a look at some key Treasury yield levels, both past and present. The first place to start is the [UST 2-Year note](#), as this [maturity](#) would have one of the closer [correlations](#) to changes in the [Fed Funds](#) target. The UST 2-Year yield began March at 2.56% but dropped to 2.20% only a week ago. In what is referred to as the "belly" of the [curve](#), the UST 5-Year note saw its rate fall a full 40 [basis points \(bps\)](#) during this same timeframe, printing a low of 2.16% as of this writing. Finishing off the trifecta, the [UST 10-Year yield](#) was not to be left behind—it experienced a decline of 39 bps, to 2.37%.

Hopefully, the picture is becoming increasingly more apparent. The "big 3" Treasury maturities all witnessed yield declines of 40 bps or just below. Doesn't that have the look and feel of a rate cut? I certainly think so.

To quote Austin Powers: "But what does it all mean, Basil?" Quite simply, the Fed didn't have to lift a finger; the UST market did all the heavy lifting for them. While the Fed Funds target remains in the 2.25%–2.50% range, you now have open market yields such as the UST 2- and 5-Year yields priced more for a 2.00%–2.25% target, or a quarter-point rate cut.

What about the UST 10-Year yield? At the levels as of this writing, *all* of the 2018 increase has now been wiped out. If you were Rip Van Winkle (I may be dating myself here...if you don't know the reference, please google it) and went to sleep in December 2017 and just woke up, you'd be asking, "What's the big deal? The 10-Year is essentially unchanged." However, lost in your slumber was the fact that the UST 10-Year rose nearly 90 bps during this time frame, hitting 3.24% as recently as November 8.

Conclusion

The bottom line is that one of the Fed's primary concerns of late—a [tightening](#) in financial conditions—has basically been removed. First, we had the bounce-back in equities and [credit spreads](#), but now a whole new dynamic has been added to the equation: a stealth rate cut.

Unless otherwise noted, all data is from Data is Bloomberg, as of March 29, 2019.

For the top 10 holdings of USFR please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/fixed-income/usfr>

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.

For more investing insights, check out our [Economic & Market Outlook](#)

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

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.

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.

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

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

2-Year Treasury : a debt obligation of the U.S. government with an original maturity of two years.

Maturity : The amount of time until a loan is repaid.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

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

Curve : Refers to the yield curve. Positioning on the yield curve is important to investors, especially during non-parallel shifts.

Basis point : 1/100th of 1 percent.

10- Year Treasury : a debt obligation of the U.S. government with an original maturity of ten years.

Monetary tightening : A course of action undertaken by the Federal Reserve to constrict spending in an economy that is seen to be growing too quickly or to curb inflation when it is rising too fast.

Credit spread : The portion of a bond's yield that compensates investors for taking credit risk.