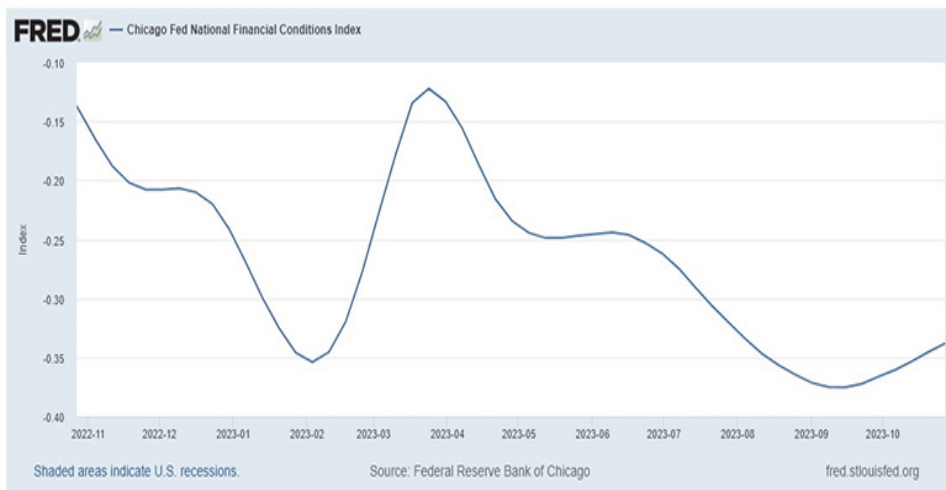


# JUST HOW TIGHT ARE FINANCIAL CONDITIONS ANYWAY?

Kevin Flanagan – Head of Fixed Income Strategy  
11/08/2023

One thing we learned, or perhaps was just officially declared, following the just completed November [FOMC](#) meeting is that tighter financial conditions are now a key [monetary policy](#) input. Powell & Co. had discussed this factor prior to last week's gathering, but making it arguably the one key addition to the policy statement cemented its role, at least for now. That got me thinking: just how tight are financial conditions anyway?



Source: St. Louis Fed, as of 11/3/23.

What the [Fed](#), and the money and [bond markets](#), appeared to be referring to was the surge in [Treasury \(UST\) yields](#), especially the 10-Year note, over the last few months. Indeed, we have blogged about this topic as well and noted that the [UST 10-Year yield](#) touched up against the 5% threshold, representing a 16-year high watermark.

However, I wanted to delve a little deeper and see how a broader measure of financial conditions was doing and not just rely on Treasury yields, or even the dollar and [credit spreads](#). Enter the [Chicago Fed National Financial Conditions Index](#). This gauge is released weekly and contains 105 components. Why is that important, you may ask? Well, an index with that many inputs is far less likely to be skewed by developments than one that only has a handful.

What I discovered analyzing the Chicago Fed gauge was rather interesting. Yes, there has been some tightening since early September, but overall, financial conditions are still more tilted toward the “looser” side of the equation. In fact, the index level actually fell (loosened) from mid-July, when the UST 10-Year yield essentially began its run to higher yield levels. Taking it one step further, according to this measure, financial conditions are not too far removed from where they were prior to the regional banking turmoil earlier this year.

**U.S. Treasury 10-Year Yield**



Source: Bloomberg, as of 11/3/23.

OK, so back to the UST 10-Year yield. You know what’s happened recently? As I write this blog post, the 10-Year has seen its yield drop almost 50 [basis points \(bps\)](#) since testing the 5% threshold about two weeks ago, with 40 bps of this decline occurring since [last week’s FOMC meeting](#). In addition, the dollar has fallen while U.S. credit spreads have narrowed post-Fed as well.

**Conclusion**

Does this mean the Fed will suddenly strike a more [“hawkish”](#) tone in the weeks/month ahead? No, not necessarily. In my opinion, it is still “all about the data.” Labor market activity and [inflation](#) remain the key ingredients to pay attention to.

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**

- + [Do You Want to See Something Really Scary?](#)
- + [Have Inverted Yield Curves Lost Their Way?](#)
- + [Fed Watch: In a Holding Pattern](#)

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

**Monetary policy**: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

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

**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.

**Treasury yield**: The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

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

**Spread**: Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

**National Financial Conditions Index (NFCI)**: Provides a comprehensive weekly update on U.S. financial conditions in money markets, debt and equity markets, and the traditional and “shadow” banking systems.

**Basis point**: 1/100th of 1 percent.

**Hawkish**: Description used when worries about inflation are the primary concerns in setting monetary policy decisions.

**Inflation**: Characterized by rising price levels.