



# News & Views: Will Treasury yields get guidance from Powell?

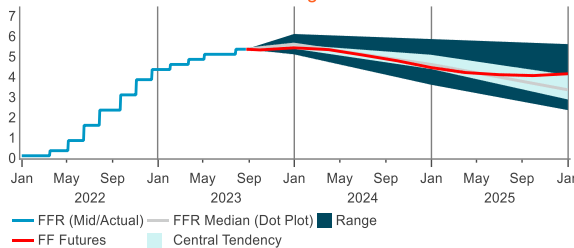
August 2023

## Key Points

- Since the Federal Reserve Open Market Committee (FOMC) July minutes release, US Treasury yields have been rising.
- **We believe three fundamental drivers are behind these moves: 1) a more-hawkish-than expected communication from the Federal Reserve (Fed); 2) news of higher US Treasury financing needs and resultant coupon issuance; 3) fear that Japanese investor demand for US Treasuries may wane given recent actions by the Bank of Japan (BoJ).** The latter, coupled with the weakening of the Yen renders US Treasury purchases less attractive for the Japanese investors on foreign exchange-hedged basis (for more, please see [PoV: economic outlook, central bank stances diverge](#)).
- **Even if US growth momentum sustains and yields remain at higher levels than earlier in 2023, high quality fixed income still presents a strong risk-adjusted investment opportunity.** This is because long-term investors will be able to capture very attractive yields over the holding period of 12 months or more. Beyond that horizon, the probability of a recession would likely increase, at which point yields should decline and investors could also capture price appreciation on longer-duration securities, should they choose to do so.
- **The Jackson Hole Symposium this week will give Fed Chair Powell the opportunity to hone the data-dependency message from the July minutes, and possibly prepare investors for the forecast upgrade that is likely at the September Fed meeting.** Since the last Fed forecast release in June, US growth and employment have surprised on the upside. Core inflation has surprised to the downside but is still far above the Fed's 2% objective, and the downside surprises have been in volatile categories (such as hotels and airfares) that may not sustain.

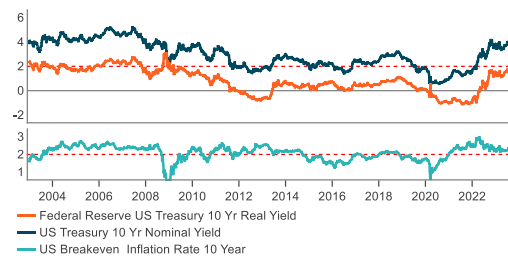
### Federal Reserve vs Market Expectations

Dot Plot as of June 2023 Meeting



Source: Macrobond, BNY Mellon Investment Management CME Group, Federal Reserve  
Data as of Wednesday, August 23, 2023  
Charts are for illustrative purposes only. Past performance is not guarantee of future returns.

### US 10 Yr Treasury Yields (Real and Nominal)



Source: Macrobond, BNY Mellon Investment Management  
Data as of Wednesday, August 23, 2023  
Charts are for illustrative purposes only. Past performance is not guarantee of future returns.



- **Chair Powell may also choose to echo a recent Federal Reserve publication that argues that the current level of rates may not even be restrictive.** The paper concludes that, given strong economic fundamentals, the policy rate appropriate for the US economy to operate at full employment and with stable inflation may in fact be *higher* today than the current 5.25-5.5%, despite the rapid increases in policy rate since 2022.<sup>1</sup>
- **We believe investor may be underpricing the potential for further hikes this year, because no further hikes in 2023 would be inconsistent with the growth outlook upgrade. Further, we believe the FOMC may upgrade its terminal policy rate from 5.5-5.75% currently, reflecting higher policy rates in 2024.**
- A higher policy rate forecast in September may be reinforced by an upgrade to the Fed's estimate of the policy rate appropriate in the long run (or so-called neutral rate, or  $r^*$ ). This estimate is notoriously nebulous, but an upgrade to the estimate would nonetheless be a hawkish development for the Fed.

**FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS. FOR GENERAL PUBLIC DISTRIBUTION IN THE U.S. ONLY.**

This material should not be considered as investment advice or a recommendation of any investment manager or account arrangement, and should not serve as a primary basis for investment decisions. Any statements and opinions expressed are those of the author as at the date of publication, are subject to change as economic and market conditions dictate, and do not necessarily represent the views of BNY Mellon or any of its affiliates. The information has been provided as a general market commentary only and does not constitute legal, tax, accounting, other professional counsel or investment advice, is not predictive of future performance, and should not be construed as an offer to sell or a solicitation to buy any security or make an offer where otherwise unlawful. The information has been provided without taking into account the investment objective, financial situation or needs of any particular person. BNY Mellon and its affiliates are not responsible for any subsequent investment advice given based on the information supplied. This is not investment research or a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. This information may contain projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations. Past performance is no guarantee of future results. Information and opinions presented have been obtained or derived from sources which BNY Mellon believed to be reliable, but BNY Mellon makes no representation to its accuracy and completeness. BNY Mellon accepts no liability for loss arising from use of this material.

All investments involve risk including loss of principal.

Not for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation. This information may not be distributed or used for the purpose of offers or solicitations in any jurisdiction or in any circumstances in which such offers or solicitations are unlawful or not authorized, or where there

---

<sup>1</sup> Please see The Evolution of Short-Run  $r^*$  after the Pandemic , August 11, 2023, <https://libertystreeteconomics.newyorkfed.org/2023/08/the-evolution-of-short-run-r-after-the-pandemic/>

would be, by virtue of such distribution, new or additional registration requirements. Persons into whose possession this information comes are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

#### Issuing entities

This material is only for distribution in those countries and to those recipients listed, subject to the noted conditions and limitations: For Institutional, Professional, Qualified Investors and Qualified Clients. For General Public Distribution in the U.S. Only. • United States: by BNY Mellon Securities Corporation (BNYMSC), 240 Greenwich Street, New York, NY 10286. BNYMSC, a registered broker-dealer and FINRA member, and subsidiary of BNY Mellon, has entered into agreements to offer securities in the U.S. on behalf of certain BNY Mellon Investment Management firms. • Europe (excluding Switzerland): BNY Mellon Fund Management (Luxembourg) S.A., 2-4 Rue EugèneRuppertL-2453 Luxembourg. • UK, Africa and Latin America (ex-Brazil): BNY Mellon Investment Management EMEA Limited, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Conduct Authority. • South Africa: BNY Mellon Investment Management EMEA Limited is an authorised financial services provider. • Switzerland: BNY Mellon Investments Switzerland GmbH, Bärengasse 29, CH-8001 Zürich, Switzerland. • Middle East: DIFC branch of The Bank of New York Mellon. Regulated by the Dubai Financial Services Authority. • Singapore: BNY Mellon Investment Management Singapore Pte. Limited Co. Reg. 201230427E. Regulated by the Monetary Authority of Singapore. • Hong Kong: BNY Mellon Investment Management Hong Kong Limited. Regulated by the Hong Kong Securities and Futures Commission. • Japan: BNY Mellon Investment Management Japan Limited. BNY Mellon Investment Management Japan Limited is a Financial Instruments Business Operator with license no 406 (Kinsho) at the Commissioner of Kanto Local Finance Bureau and is a Member of the Investment Trusts Association, Japan and Japan Investment Advisers Association and Type II Financial Instruments Firms Association. • Brazil: ARX Investimentos Ltda., Av. Borges de Medeiros, 633, 4th floor, Rio de Janeiro, RJ, Brazil, CEP 22430-041. Authorized and regulated by the Brazilian Securities and Exchange Commission (CVM). • Canada: BNY Mellon Asset Management Canada Ltd. is registered in all provinces and territories of Canada as a Portfolio Manager and Exempt Market Dealer, and as a Commodity Trading Manager in Ontario.

#### BNY MELLON COMPANY INFORMATION

BNY Mellon Investment Management is one of the world's leading investment management organizations, encompassing BNY Mellon's affiliated investment management firms and global distribution companies. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the corporation as a whole or its various subsidiaries generally. • Mellon Investments Corporation (MIC) is a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation. MIC is composed of two divisions: Mellon, which specializes in index management, and Dreyfus, which specializes in cash management and short duration strategies. Dreyfus is also a division of BNY Mellon Investment Adviser, Inc. (BNYMIA), a registered investment adviser. • Insight Investment - Investment advisory services in North America are provided through two different investment advisers registered with the Securities and Exchange Commission (SEC) using the brand Insight Investment: Insight North America LLC (INA) and Insight Investment International Limited (IIIL). The North American investment advisers are associated with other global investment managers that also (individually and collectively) use the corporate brand Insight. Insight is a subsidiary of BNY Mellon. • Newton Investment Management - "Newton" and/or the "Newton Investment Management" brand refers to the following group of affiliated companies: Newton Investment Management Limited (NIM) and Newton Investment Management North America LLC (NIMNA). NIM is incorporated in the United Kingdom (Registered in England no. 1371973) and is authorized and regulated by the Financial Conduct Authority in the conduct of investment business. Both Newton firms are registered with the Securities and Exchange Commission (SEC) in the United States of America as an investment adviser under the Investment Advisers Act of 1940. Newton is a subsidiary of The Bank of New York Mellon Corporation. • ARX is the brand used to describe the Brazilian investment capabilities of BNY Mellon ARX Investimentos Ltda. ARX is a subsidiary of BNY Mellon. • Walter Scott & Partners Limited (Walter Scott) is an investment management firm authorized and regulated by the Financial Conduct Authority, and a subsidiary of BNY Mellon. • Siguler Guff - BNY Mellon owns a 20% interest in Siguler Guff & Company, LP and certain related entities (including Siguler Guff Advisers LLC). •

**BNY Mellon Investor Solutions, LLC is an investment adviser registered as such with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the Investment Advisers Act of 1940, as amended. BNY Mellon Investor Solutions, LLC is a subsidiary of The Bank of New York Mellon Corporation.**

**No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. All information contained herein is proprietary and is protected under copyright law.**

**NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE |  
©2023 THE BANK OF NEW YORK MELLON CORPORATION**

IS-418625-2023-08-23

GU-463 - 23 February 2024