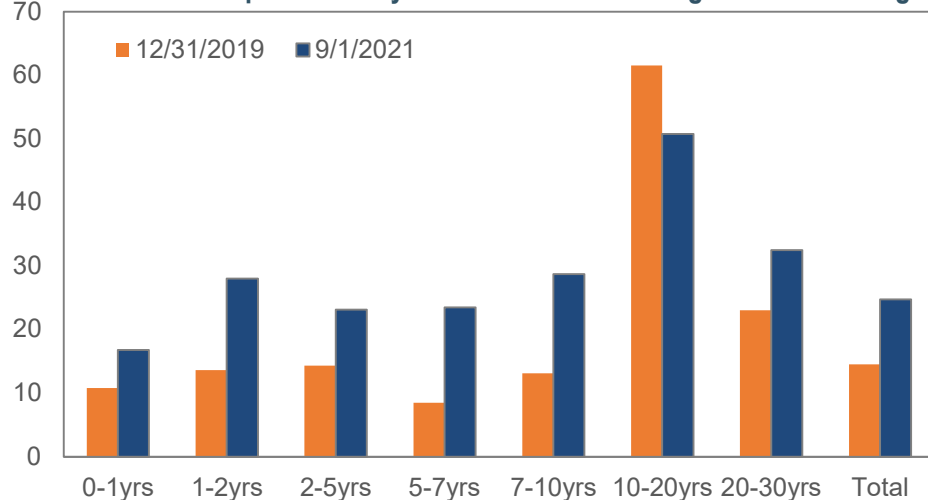


Technical Factors Behind Treasury Yield Moves

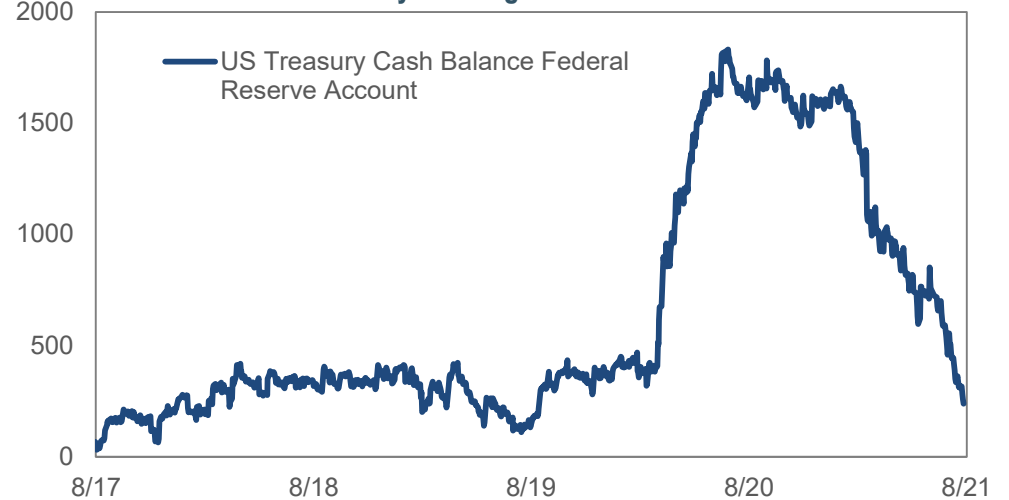
- US Treasury yields and the yield curve are generally seen as a barometer of the market's economic outlook, which is influenced by fundamental reasons like inflation and expectations for economic growth. However, supply and demand, including Treasury issuance and purchases by the Federal Reserve (Fed), pensions, banks and overseas buyers, are the ultimate drivers of yields.

Fed Ownership of Treasury Securities As Percentage Of Outstanding



\$bn
2000

Treasury Drawing Down Cash Balance



- Supply dynamics:** In 2020, net Treasury issuance exceeded \$4.2 trillion, more than the previous five years combined. The Treasury has been drawing down accumulated cash reserves and may trim auction sizes if stimulus declines and amid the ongoing debt ceiling showdown. While supply remains heavy compared to previous years, decreased prospective issuance could result in lower yields.
- Demand dynamics:** The Fed has absorbed much of the additional Treasury supply, and its total Treasury holdings increased from \$2.3 trillion at year-end 2019 to over \$5.3 trillion in September 2021 - almost 25% of the total outstanding. Pensions and banks have also been a source of demand, given the improvement in funded statuses (up 11% on average this year) and high level of deposits. With the Fed expected to begin its asset purchase taper around year end, yields may need to rise to attract other buyers.
- Forecasting the impact of technical forces on Treasury yields is difficult. The Fed's reduced demand may be offset by lower issuance. However, there is potentially \$4.5 trillion in spending related to infrastructure and budget deals, and Treasury supply may increase while buying from the Fed falls. At IR+M, we do not position our portfolios for specific rates, and instead seek to add value through asset allocation and security selection.

Source: Bloomberg, Federal Reserve Bank of New York, and IR+M analytics as of 9/1/21. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management. "Bloomberg®" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any IR+M product.