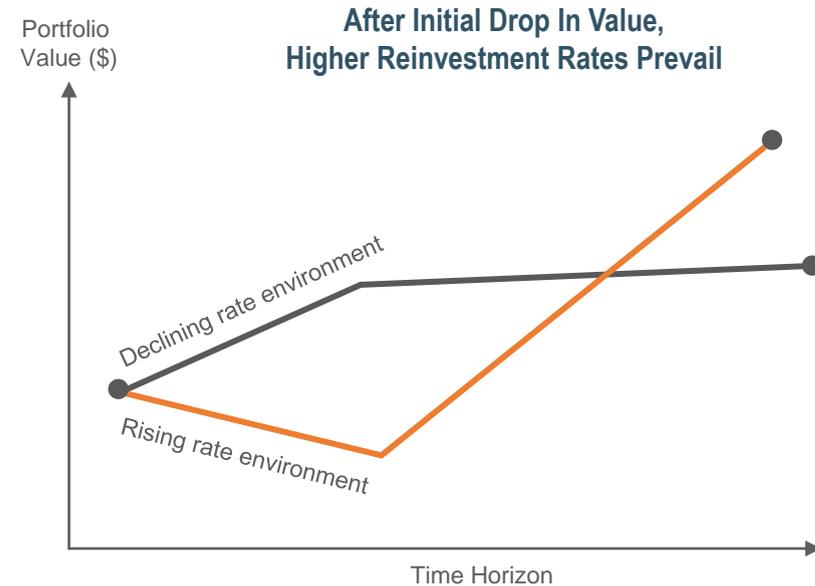
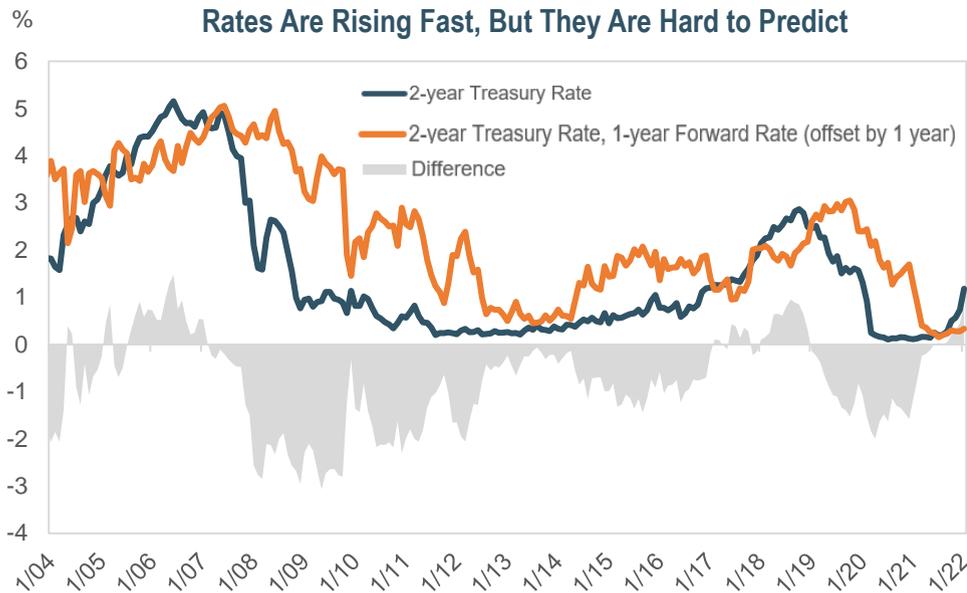


Rising Rates – Keep Calm and Carry On



- **Treasury rates are on the rise.** Yields on both short- and longer-term Treasuries have been on the rise since the end of last year and have recently surged on hawkish rhetoric from the Federal Reserve (Fed). At January’s FOMC meeting, Fed Chairman Jerome Powell said he expects a series of rate hikes this year, with reduced pandemic support from the central bank, to quell rising inflation. Year-to-date, the 2-, 10-, and 30-year yields have climbed 55bps from 0.77% to 1.32%, 32bps from 1.63% to 1.95%, and 23bps from 2.02% to 2.25%, respectively.
- **Rates are notoriously hard to predict.** Following the FOMC’s comments at its January meeting, the market is currently pricing in five rate hikes in 2022, up from three in December. Historically the market has struggled to predict rates accurately and consistently. Over the last 20 years, the 2-year Treasury rate, 1-year Forward predicted the actual rate within 25bps and 50bps only 15% and 30% of the time, respectively. We believe positioning for rates is less likely to add long-term value and instead remain duration neutral across our strategies.
- **As the Fed prepares to raise rates, keep calm.** Some investors may reconsider their fixed income allocations given that fixed income portfolio values may initially fall as rates rise. However, investors can benefit from higher reinvestment rates, especially those with time horizons longer than their durations, as the coupon income can offset the negative price return over the long term (see chart on the right above).

Source: Bloomberg as of 1/31/22 and 2/8/22. 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 but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M’s views and opinions. 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.