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## Weekly Market Commentary

### The Path Forward

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In a recent commentary, we highlighted the need to take Treasury Secretary Scott Bessent's focus on bringing longer dated Treasury yields down both 'seriously and literally'. Markets were moving in his favor through March, as the 10-year Treasury yield fell by 60 basis points to 4.0% since the beginning of the year. However, Liberation Day introduced a dose of volatility, driving the term premium (the compensation for uncertainty regarding the future path of interest rates) up by 58 basis points to 0.84%, the highest level since 2014. This is a main driver behind the recent upward movement in yields.

Since April 2nd, trade tensions have eased, but any resurgence of these tensions is likely to rekindle upward pressure on the term premium. Despite this, we continue to view the 'fair value' for the 10-year Treasury as being within the range of 4%-4.5%. It has consistently traded within this range since February, so we remain comfortable with our neutral duration positioning across fixed income portfolios.

Looking ahead, the market is pricing in three rate cuts for 2025, bringing the Fed Funds rate to 3.50%-3.75%. During last week's FOMC meeting, Chairman Powell expressed heightened concern over stagflation, with the Committee's press release adding new language to the effect that, "the risks of higher unemployment and higher inflation have risen." To the dismay of the current administration, the Fed is taking a 'wait-and-see' approach, awaiting new data to form a clearer picture before pulling the trigger on rate cuts. While we still anticipate some easing later this year, the near-term outlook remains murky and new policy initiatives will be carefully considered by the Fed when determining the path forward.

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