Northern Trust | The Sticky 10-Year Yield

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Last week, the Federal Reserve raised interest rates another 25 basis points, which is the eighth time since late 2015 and the third time this year. The most recent policy announcement was in line with market expectations for further monetary policy tightening. While the view from the committee members reflected a more positive outlook, that 10 year yields actually fell after the announcement to raise rates, suggesting investors aren't in any hurry to increase yields further.

The 10 year yield is consistently viewed as a proxy for long term growth and inflation expectations, and it remains a major technical focus for investors. In September, the 10 year yields crossed through the psychological 3% milestone and gave some modest breathing room for the Fed to raise rates without flattening the yield curve more dramatically. The move above 3% was a natural reaction to stronger growth trends in 2018. However, with short and treasury rates drifting higher, from expectations of a more aggressive Fed, 10 year treasury notes continue to trade range bound, resulting in a flatter yield curve.

In its meeting last week, Federal Reserve officials submitted their economic and interest rate forecasts through their quarterly summary of economic projections, also commonly called their dot plot projections. The median expectation from officials suggested four more rate hikes until the end of 2019. If these forecasts come to fruition, the federal funds target range of 3% to 3.25% would be higher than where the 10 year treasury note is trading today. So we don't think it's likely that the Fed will be that aggressive next year.

While we've observed the 10 year treasury note trade above 3% for the last few weeks, its significance will be more evident only if it stays elevated over a number of months rather than weeks. Despite modest improvements, investors don't see inflation as an imminent threat to drive longer term rates higher, and economic growth will likely slow. And with 10 year treasury yields trading near cycle highs, global investors have become even more attracted to these higher yields relative to other high quality sovereign debt. Now that the 10 year treasury note is trading around 3%, we believe a variety of influential factors will keep the 10 year treasury rate well-anchored and possibly even lower by the end of this year.

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