POLL Long Treasury yields to stay elevated as inflation, debt pressures blunt Fed easing

By **Sarupya Ganguly**

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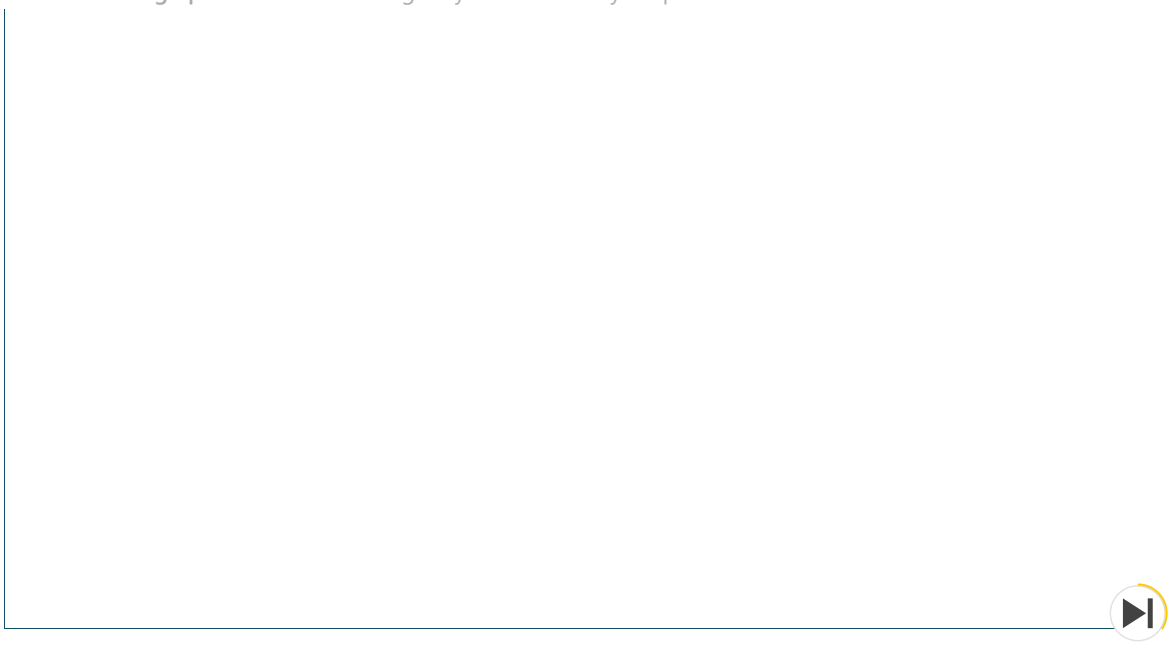
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BENGALURU, Oct 14 (Reuters) - Short-dated U.S. Treasury yields will edge lower on expectations of Federal Reserve rate cuts even as the long end resists the pull thanks to sticky inflation, swelling deficits and concerns about Fed independence, a Reuters poll showed.

The poll, published on Tuesday, surveyed 75 bond strategists between October 9-13.

Persistently high long yields threaten to worsen Washington's rapidly-deteriorating fiscal position. Non-partisan analysts warn President Donald Trump's aggressive tax and spending reforms could add over $3 trillion to the debt pile over the next decade.

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With growth still strong and inflation well above the Fed's 2% target, many analysts say policy is not restrictive enough to justify the five rate cuts now priced into rate futures through 2026. Easing too much too soon, they warn, could reignite price pressures and send yields soaring just as the labour market begins to soften.

An ongoing government shutdown has further complicated matters, halting key data releases and forcing the Fed to steer policy with limited visibility, raising the risk of missteps as doubts grow over its future independence.

The benchmark U.S. 10-year Treasury yield, currently around 4.0%, will trade around 4.10% in three and six months, median forecasts from the poll showed. It is then forecast to rise to 4.17% in a year. Bond yields move inversely to prices.

"We don't expect long-term yields to fall much further, if at all. Ten-year Treasuries can still hold above 4% even as the Fed cuts rates, mainly due to inflation being sticky and the overall resilient economy," said Collin Martin, fixed income strategist at the Schwab Center for Financial Research.

"Also, we don't think monetary policy is very restrictive right now. We disagree with the implied pricing and think the Fed will cut one more time this year as opposed to markets pricing in closer to two... which would probably result in an upside surprise for yields."

That view was echoed across the survey, with 19 of 31 analysts, over 61%, saying 10-year yields were more likely to end the year above their current forecasts than below.

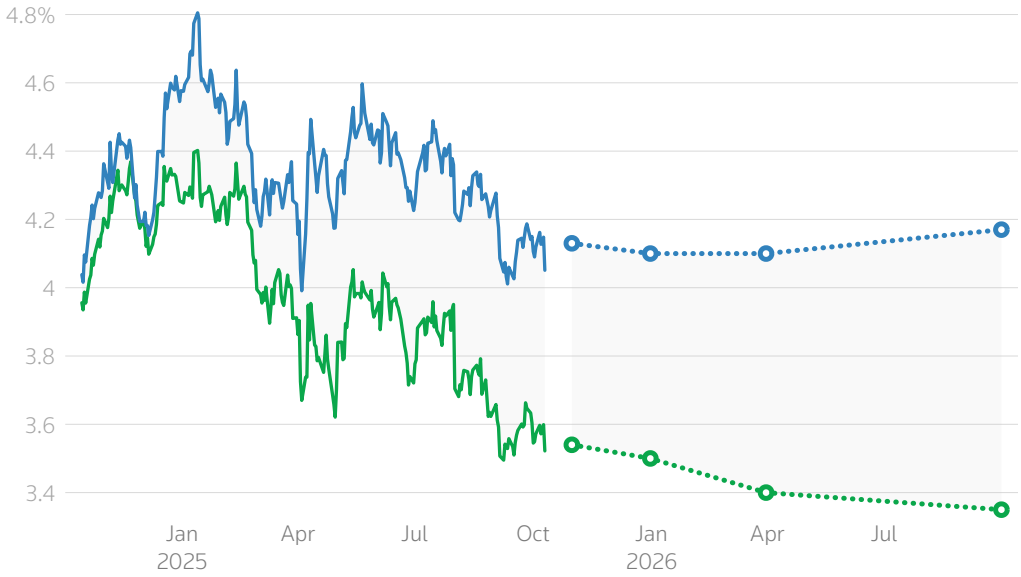
YIELD CURVE TO STEEPEN

The more interest rate-sensitive 2-year Treasury yield was forecast to broadly hold its current 3.47%-level at the end of the year and fall to 3.40% in six months and 3.35% in a year, poll medians showed.

If realized, that would mean a gradual steepening of the yield curve, with the spread between 10- and 2-year yields rising from around 50 basis points now to 60 bps by the end of 2025 and 82 bps in a year - the highest since January 2022.

Reuters poll: US Treasury yields

Median forecasts for 10-year and 2-year notes from the latest Reuters poll of fixed income strategists



Source: LSEG/Reuters Polls

The New York Fed's measure of 'term premium' - additional compensation demanded by investors for holding longer-term debt - has stayed elevated since the start of 2025, hitting an 11-year high in July.

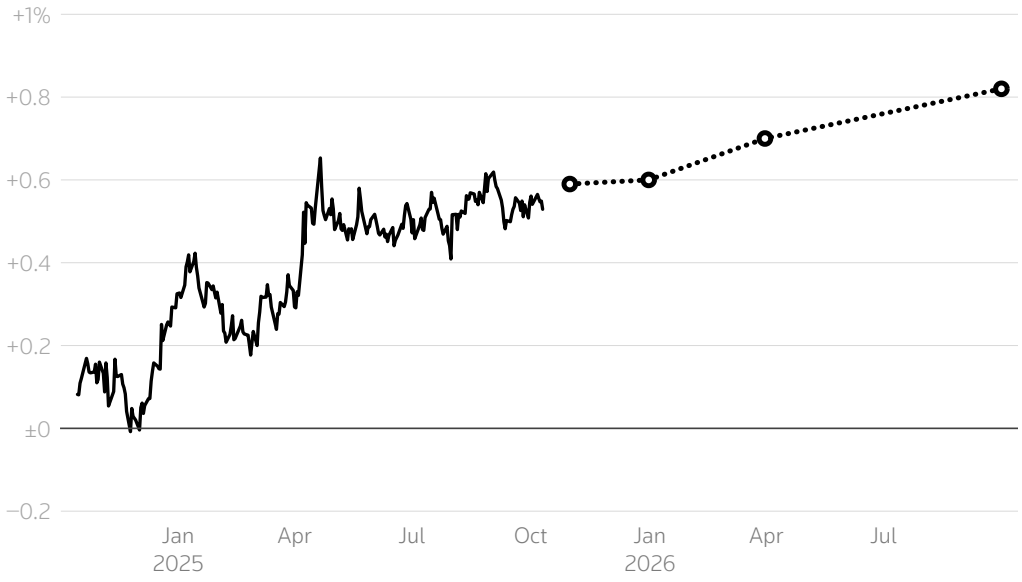
Vincent Reinhart, former Fed staffer and now chief economist at BNY Investments, said the U.S. economy had largely normalised after the pandemic's price shocks, with supply chains mended, labour markets balanced and inflation on track to return to near 2% next year.

"Tariffs interrupted that, and we see that in the turn up in goods prices and now sticky price inflation," he said.

"In the long term, the implications are the yield curve steepens. The Fed tries to keep short rates low, and investors fight back with a little bit more inflation premium, a little more outright inflation compensation, and higher volatility and term premium."

Reuters poll: US Treasury yield spread

The median forecast for the 10-year and 2-year notes from the latest Reuters poll of fixed income strategists



Source: LSEG/Reuters Polls

Reporting by Sarupya Ganguly; Analysis by Jaiganesh Mahesh; Polling by Indradip Ghosh and Renusri K; Editing by Susan Fenton

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Sarupya Ganguly
Thomson Reuters

Sarupya Ganguly reports on monetary policy and market outlooks in major economies, covering foreign exchange, fixed income, housing and equities. He holds degrees in economics from SOAS University of London and Presidency University, Kolkata, India.

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