

Rates Start Their Steady Climb - Fixed Income Overview

Various fixed income analysts expect a reversal in downward trending rates as the Fed prepares to start raising short term rates as early as the first quarter of 2022.

The Fed is on track to shrink its balance sheet of mortgage and treasury bonds sooner rather than later. The expectation is that the Fed will continue reducing or selling off portions of its \$8.76 trillion balance sheet over the next few months. Markets view this dynamic as a form of tightening monetary policy, signaling the deliberate attempt to stifle inflation by slowing economic expansion.

The 10 year treasury bond yield rose in the final trading days of 2021 to 1.52%, up from 0.93% at the end of 2020. Corporate bond yields also rose for the year, yet not as significant as U.S. government bond yields.

Source: U.S. Treasury

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