

Rates Held Steady In May - Fixed Income Review

Short term and long term Treasury bond yields fell moderately in late May, known as a shift down in the yield curve. Such a dynamic may be representative of interest rates beginning to level off after a rapid rise over the past few months. The Federal Reserve indicated that it would raise short term rates again in June and July, but not as much as had previously been expected.

The average rate on a 30 year fixed mortgage fell slightly in late May to 5.10% from 5.25%, offering some reprieve to homebuyers. Mortgage rates are still well above the 3.11% average at the end of last year.

The retreat in U.S. Treasury bond yields spilled over to municipal and corporate bonds, where yields fell modestly for the month. Overall bond prices rose as yields fell for nearly all domestic bond sectors.

Regardless of a possible let up in the Fed's tightening trajectory, further increases are expected over the next two months along with Fed balance sheet reductions which will place additional pressure on rates.

Sources: U.S. Treasury, Federal Reserve, FreddieMac

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