

ABOVE THE FRAY

Don't Get Fed Up: Part 2

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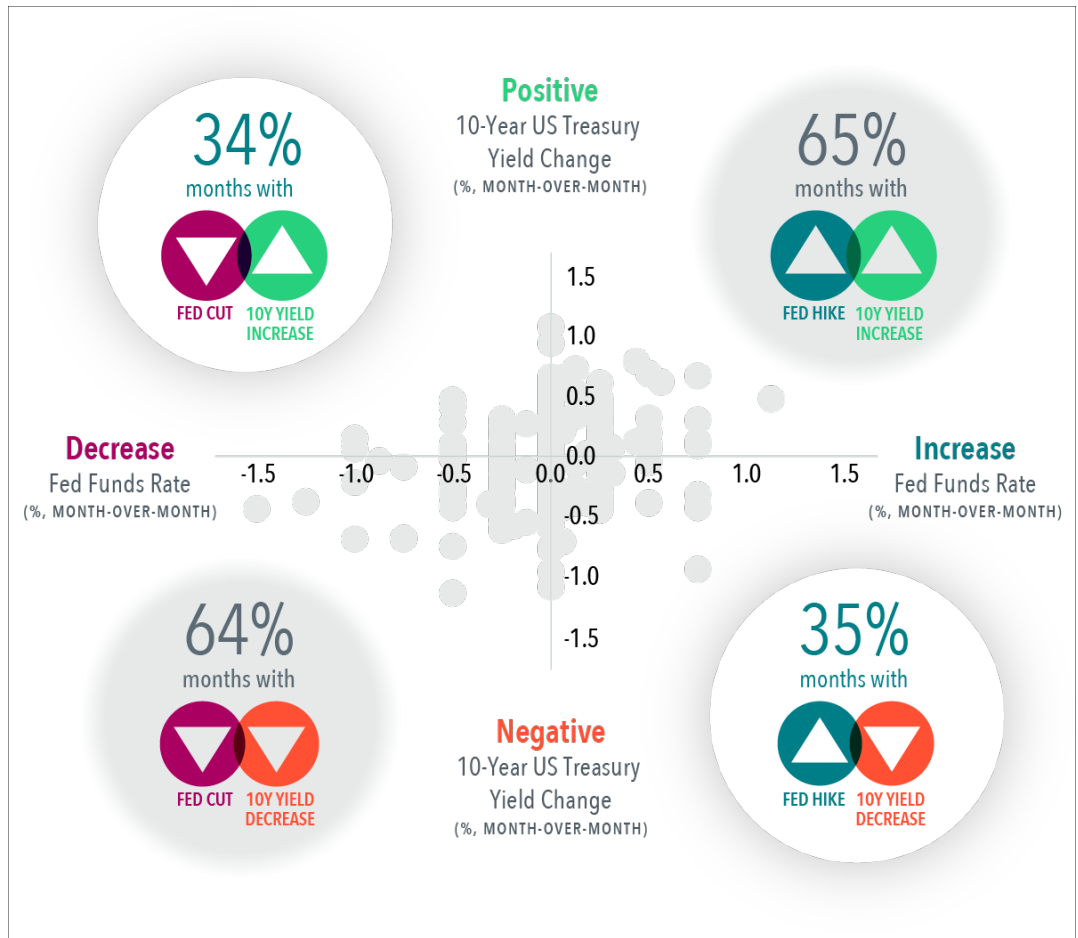
In a [recent edition](#) of *Above the Fray*, we highlighted evidence showing that markets may move ahead of the Fed because markets are continually processing information that might factor into Fed decisions. Accordingly, bond market rates may not always move in lockstep with Fed Fund rate changes that ultimately occur.

This is apparent when looking at the movement in Treasury yields in months when the Fed has raised or cut its rate. Treasury yields actually increased in about one-third of months when the Fed cut rates. These rates moved in the opposite direction at a similar frequency in months when the Fed raised rates.

Even perfect foresight of what the Fed will do may not tell you how Treasuries will perform. That's a compelling reason to leave out Fed predictions when determining bond market allocations.

Exhibit 1**Changes in 10-Year US Treasury Yields vs. Fed Fund Rates**

January 31, 1983–June 30, 2024

**Past performance is not a guarantee of future results.**

Source: Federal Reserve Economic Data (FRED) from the Federal Reserve Bank of St. Louis. Data series used: Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Percent, Daily, Not Seasonally Adjusted (DGS10), Federal Funds Target Rate (DISCONTINUED), Percent, Daily, Not Seasonally Adjusted (DFEDTAR), and Federal Funds Target Range - Upper Limit, Percent, Daily, Not Seasonally Adjusted (DFEDTARU). Circles corresponding to a rate cut do not sum to 100% due to monthly periods of no yield change for the 10-Year US Treasury bond.

This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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Don't Get Fed Up

Dude, You're Gettin' a Dell

Weighting Whiplash

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