

ABOVE THE FRAY

Don't Get Fed Up

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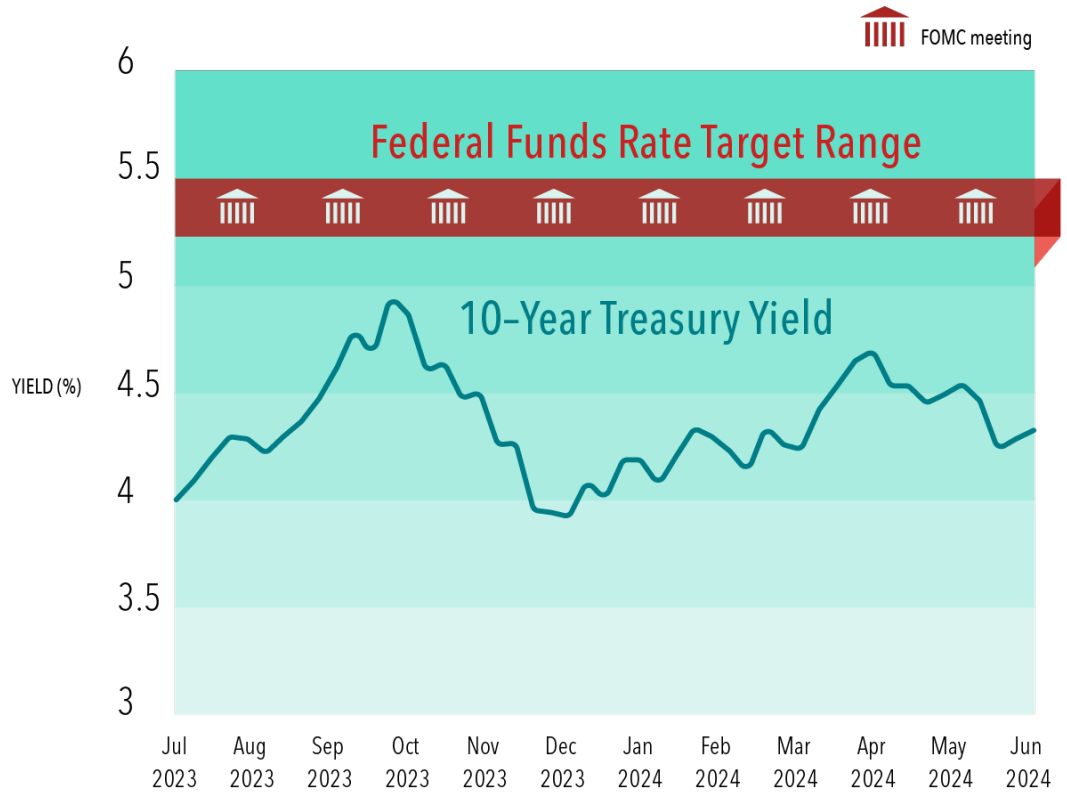
One of the reasons why Fed watching is an unreliable input into investment decisions is because the Fed's expected actions are already reflected in market prices. By the time the Fed executes rate changes, markets have already had time to form an expectation and may not need to react any further.

It's also important to note there's variation in market interest rates that is unrelated to changes in the Fed funds rate. For example, the Fed's target range has remained constant over the past year. Meanwhile, the 10-year Treasury yield has fluctuated over this period, falling in the last quarter of 2023 before rising again this year.

This is a good example of why it's hard for investors to draw actionable conclusions from Fed watching. The returns on your bond portfolio are likely not that closely correlated with the Fed funds rate. And unless you looked up future Treasury yields while out in your DeLorean, it's unlikely you will be able to consistently outperform markets through interest rate predictions.

Exhibit 1

**10-Year Treasury
Yields, Fed Funds Rate**
July 27, 2023–June 30, 2024

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

Fed funds rate data from FRED. Ten-year constant maturity Treasury index yields from FactSet.

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

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