

Volatility and Yield Curve Dynamics Present Tactical Opportunities

This report is excerpted from the *Third Quarter 2025 Fixed-Income Sector Views*.

We still expect the curve to steepen over the longer term.

Elevated fiscal deficits leave the long end of the Treasury curve vulnerable to selloffs as investors seek higher yields to compensate for the risk associated with increasing supply. The passage of the One Big Beautiful Bill by the House in May exacerbated these concerns, highlighting the potential for further volatility. Regulatory changes may offer banks some balance sheet relief, but they are unlikely to significantly enhance their appetite for Treasuries, keeping the market wary of fiscal policy's effects on Treasury demand.

Sector Commentary

- Tariff announcements in April induced volatility across asset classes, with Treasuries trading within a 25–50 basis point range. The S&P 500 dropped over 10 percent before rebounding following the Trump administration's 90-day tariff pause.
- Elevated volatility throughout the quarter led to a markedly steeper yield curve. Short-term Treasury yields decreased by 10–15 basis points, while long-term yields increased by 20–25 basis points.
- Concurrently, a weaker-than-anticipated inflation report and a moderating labor market have bolstered market expectations for a Fed rate cut this year, potentially starting in the third quarter.
- The appointment of Michele Bowman as Vice Chair for Supervision of the Board of Governors is anticipated to lead to an easing of bank regulatory requirements.

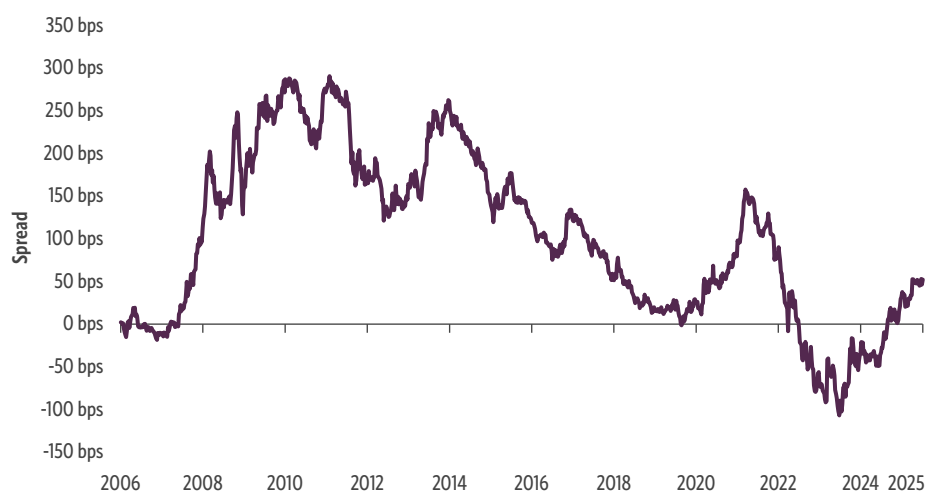
Investment Themes

- With the Fed nearing a potential easing of monetary policy, we favor owning duration in the front and intermediate segments of the Treasury curve.
- Elevated volatility in the long end of the curve presents opportunities to tactically add duration. The 10-year Treasury remains at the higher end of its 3.75–4.75 percent trading range, supporting this strategy.
- As longer maturity sovereign yields rise globally, and U.S. dollar-hedged carry remains attractive due to higher U.S. short-term rates compared to other developed countries, we see potential value in owning duration in non-U.S. dollar sovereign bond markets and hedging back to U.S. dollars.
- Current Treasury yields create a favorable environment for investing in higher quality fixed-income securities.

By Kris Dorr and Tad Nygren

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Historical 2s10s Yield Curve Is Likely to Steepen



Source: Guggenheim Investments, Bloomberg. Data as of 7.11.2025.

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One **basis point** is equal to 0.01%.

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