

## Rates

# Fed Easing Anticipated to Drive Yield Curve Steepening

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

## Easing monetary policy and inflation trends drive tactical opportunities in Treasuries and TIPS.

Recent market conditions have been defined by subdued volatility, a steepening yield curve, and expectations of additional easing by the Fed. Treasury trading has remained rangebound, encouraging tactical duration adjustments. Elevated inflation and the Fed's policy stance suggest U.S. interest rates may trend lower, with further yield curve steepening anticipated. Treasury Inflation-Protected Securities (TIPS) are likely to remain appealing, supporting a favorable outlook for opportunistic investments in this asset class.

### Sector Commentary

- Treasury market volatility remained subdued last quarter, with yields declining 10–15 basis points across the curve as softer labor market data reinforced expectations for Fed easing this fall.
- The Federal Open Market Committee (FOMC) implemented a 25 basis point rate cut on Sept. 17, as anticipated, and projected two additional cuts by year end, with a terminal rate forecast of 3.0 percent.
- Implied volatility across asset classes declined further during the quarter, supported by stable economic and monetary policy conditions, benefiting short-volatility trading strategies in fixed-income markets.
- TIPS outperformed nominal Treasuries by 60 basis points last quarter, driven by Fed easing in a high inflation environment. Year to date as of quarter end, TIPS have returned 6.9 percent, compared to 5.4 percent for nominal Treasuries.

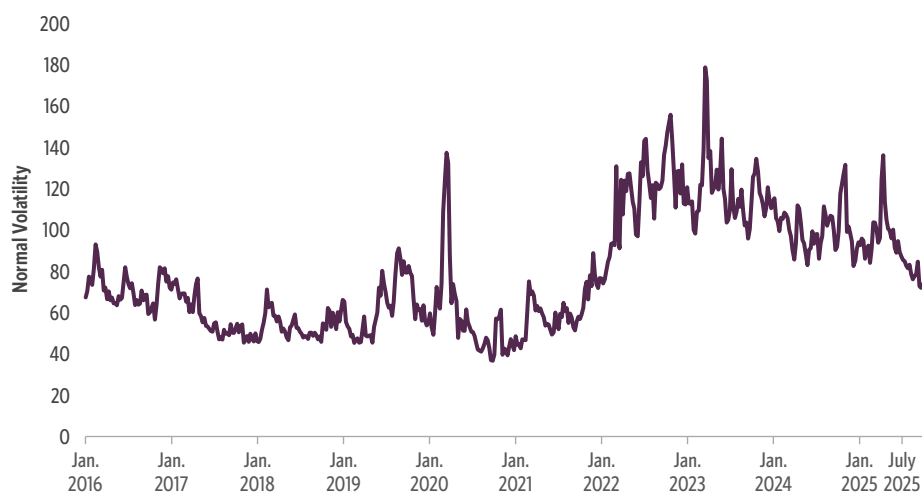
### Investment Themes

- The Fed's first rate cut since last December reinforces expectations for lower U.S. interest rates. We anticipate the yield curve to steepen further as monetary policy continues to ease.
- Treasuries have traded within a narrow range, a trend likely to persist. Tactical duration adjustments—reducing during rallies and adding during significant selloffs—remain a preferred portfolio strategy.
- With above-target inflation and the Fed easing policy, we expect TIPS to continue performing well and will invest opportunistically in this asset class.
- Fiscal deficit concerns are keeping term premiums and long-end Treasury yields elevated. However, stronger-than-expected tariff revenue and increased Treasury bill issuance could reduce financing costs, improving the deficit outlook and supporting long-end yields over time.

By Kris Dorr and Tad Nygren

Treasury market volatility remained subdued last quarter, with yields declining 10–15 basis points across the curve as softer labor market data reinforced expectations for Fed easing this fall.

### Implied Volatility Continued to Decline During the Third Quarter



Source: Guggenheim Investments, Bloomberg, ICE BofA MOVE Index. Data as of 9.28.2025

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

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

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

**Investing involves risk, including the possible loss of principal.** In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Private Investments, LLC.

Not FDIC insured. Not bank guaranteed. May lose value.

© 2025, Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC. GPIM 66394