

## Rates

# Constructive Duration Outlook as Fed Eases Toward Neutral

This report is excerpted from the *First Quarter 2026 Fixed-Income Sector Views*.

## Duration and TIPS offer value as the Fed nears neutral amid moderating inflation.

The Fed's late 2025 easing, supported by softer labor markets, moved its policy closer to neutral and underpinned strong fixed-income performance. Looking to 2026, our expectation for additional rate cuts supports a constructive stance on duration, particularly in shorter maturities. Additionally, a steepening yield curve and divergent global central bank policies present opportunities for strategic positioning across sovereign markets and yield curves, while inflation linked securities remain attractive.

### Sector Commentary

- The Fed implemented 75 basis points of rate cuts in the final quarter of 2025, mirroring the easing trajectory observed in 2024. Treasuries posted a total return of 6.3 percent, while TIPS outperformed with a 7.0 percent return.
- In December, the Fed reduced rates by 25 basis points and announced reserve management purchases (RMPs) of \$40 billion per month. This larger-than-expected measure is anticipated to bolster front-end Treasury securities.
- Moderating inflation and softer labor market conditions will facilitate the Fed's move toward a neutral policy rate by year-end. We expect a brief pause in rate adjustments, followed by further cuts in 2026.
- Fixed-income markets remain well-positioned for additional easing, with shorter-duration Treasuries likely to benefit from favorable monetary policy dynamics and reserve management activity.

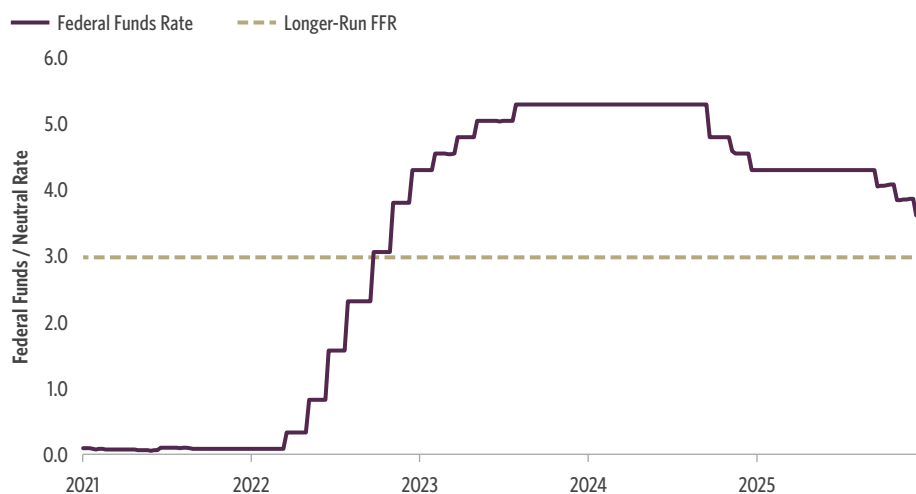
### Investment Themes

- Treasury market forward yields in the front end look attractive relative to the Fed's terminal rate pricing and should support front-end Treasuries. This trend could steepen the yield curve to new cycle highs and lower front-end Treasury yields, enhancing relative value opportunities.
- Divergent central bank policies across developed markets create opportunities to express tactical duration views in sovereign markets outside the United States in 2026, particularly in regions with contrasting monetary policy trajectories.
- Longer maturity TIPS offer relative value. Real yields may decline further, while medium-term breakeven inflation premiums are expected to rise, favoring longer maturity TIPS.
- With the Treasury yield curve steep and likely to move steeper, roll-down may become a strong driver of fixed-income total returns in 2026.

By Kris Dorr and Tad Nygren

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### The Effective Fed Funds Rate Is Closing in on the Estimated Neutral Rate



Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2025.

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

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