LET'S STOP WITH THE RATE HIKE TALK ALREADY

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Coming into this year, it's safe to say that all the attention within the money and bond markets was on Federal Reserve rate cuts. It wasn't a question of "if," but "when" and by "how much." Well, we all know now how that narrative has turned out thus far. In fact, just within the last few weeks the whole rate cut discussion was turned completely around, as—believe it or not—the Treasury (UST) arena was actually contemplating the exact opposite…could the Fed give us a renewed rate hike.

So, how did we go from point A (rate cuts) to essentially point Z (a rate hike)? Certainly, the economic data released in April was a starting point, specifically on the inflation side of the equation. CPI and PPI both came in hotter than expected, basically halting the disinflation trend that had been prevalent in 2023. In addition, labor market data revealed new momentum in job growth, and consumer spending, as measured by retail sales, was also solid.

However, the final piece of the puzzle seems to have been a comment from N.Y. Fed President Williams, considered to be one of the Fed's three official spokespersons. While he said that a rate hike "is not my baseline," he did say it is possible if the data warrants such a move.

Needless to say, the UST market did not greet this headline favorably. Indeed, the UST 2-Year yield hit a pre-May FOMC meeting peak of 5.04%, the highest reading since November. Meanwhile, the UST 10-Year yield rose to 4.74% on an intra-day basis, to reach its most elevated level since October. In other words, the incredible UST rally during Q4 was getting closer to being reversed entirely.

Why is this so important? Because it explains why the UST market reacted in such a positive fashion to the results of the May FOMC meeting, the Powell presser and then the April jobs report that followed a couple days later. Without this context, the May Fed-day probably would have been viewed as being neutral with a case for perhaps a hawkish spin on the Powell presser.

Instead, the money and markets focused on Powell's downplaying the chance of a renewed rate hike. If the whole rate hike narrative hadn't been re-introduced, the focus probably would have been on the Fed chair's statement that gaining confidence to cut rates will take longer than originally thought. Additionally, although the employment data did not meet consensus forecasts, it still revealed a relatively solid labor market setting.

Conclusion

The bottom line is that "higher for longer" remains a dominant theme for the U.S. bond market. Against this backdrop, we believe investors should consider turning to the WisdomTree suite of Treasury Funds as a toolkit to position their fixed income portfolios for both the current and prospective rate outlooks:

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Producer Price Index : weighted index of prices measured at the wholesale, or producer level.