

U.S. TREASURIES: ‘YELLEN’ DOWN THE WELL

Kevin Flanagan – Head of Fixed Income Strategy
04/06/2016

Usually, the Bureau of Labor Statistics' monthly Employment Situation Summary tends to be the highlight of the bond market news in the week of its release. However, the [Federal Reserve \(Fed\)](#) made sure *it* dominated the headlines this time around, as Fed chair Janet Yellen's speech at the Economic Club of New York on March 29 clearly underscored. As a result, the U.S. Treasury market (UST) appeared to have "used up all its gas" following Yellen's speech and barely responded to another relatively solid albeit unsurprising jobs report. The tenor of the Fed chair's speech was viewed by the UST market as being definitely on the [dovish](#) side. Positive responses were observed across the board, with [yields](#) falling all along the yield curve. In fact, that momentum continued right up to the release of the jobs report, but the market appeared to take a bit of a breather following the release of the employment data. Nevertheless, the "Yellen-led" gains remained basically intact. So, did the Fed chair really offer any groundbreaking news in terms of Fed policy? Obviously, based upon the reactions not just in the UST arena but also in other financial markets, the answer was an unequivocal yes. The main takeaway from Yellen's speech seemed to be that the bar had been raised for potential future rate hikes in terms of both timing and magnitude. In other words, the policy makers will be in no hurry to act and are awaiting further developments to see if another round of tightening is warranted. Was this really that groundbreaking? Not necessarily, especially given the language of the March [FOMC](#) policy statement. However, subsequent "Fed speak" led the markets to believe that the April FOMC meeting was still "live" and, given the right circumstances, could actually result in a rate hike. It would appear that, at a minimum, Yellen's goal was to squash the notion that a [Fed Funds](#) increase could occur later this month, and she continued to stress that the FOMC expects conditions will only merit "gradual increases" going forward, the exact same words used in the March policy statement and the opening of Yellen's speech. The Fed chair also continued to insist that future policy is data dependent, but it may be more precise to observe that decisions are contingent on improving financial conditions and global economic developments. Once again, these two latter considerations were prevalent in both forms of communication. In other words, domestic economic data is not the sole arbiter of U.S. monetary policy. **Conclusion** In our opinion, the Fed needs to be careful to not give the impression that financial markets are leading Fed policy decisions, as opposed to the other way around. This can have rather disruptive consequences, especially if the voting members begin to push back against market expectations. Since their most recent high points on March 11, both the [UST two-year yield](#) and [ten-year yield](#) have fallen 20 [basis points \(bps\)](#), as of this writing, while the [five-year yield](#) has witnessed an even larger decline of 25 bps. Against this backdrop, it is becoming increasingly apparent that the UST market is, once again, filtering out the Fed as an active consideration for the second quarter, and perhaps even further out on this year's calendar.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany

this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

view the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.
You cannot invest directly in an index.

DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Dovish: Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.

Yield: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.

Federal Funds Rate: The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the “policy rate” of the U.S. Federal Reserve.

2-Year Treasury: a debt obligation of the U.S. government with an original maturity of two years.

10-Year Treasury: a debt obligation of the U.S. government with an original maturity of ten years.

Basis point: 1/100th of 1 percent.

5-Year Treasury: a debt obligation of the U.S. government with an original maturity of five years.