Capital Markets Strategy
Essential inCights for the C-Suite

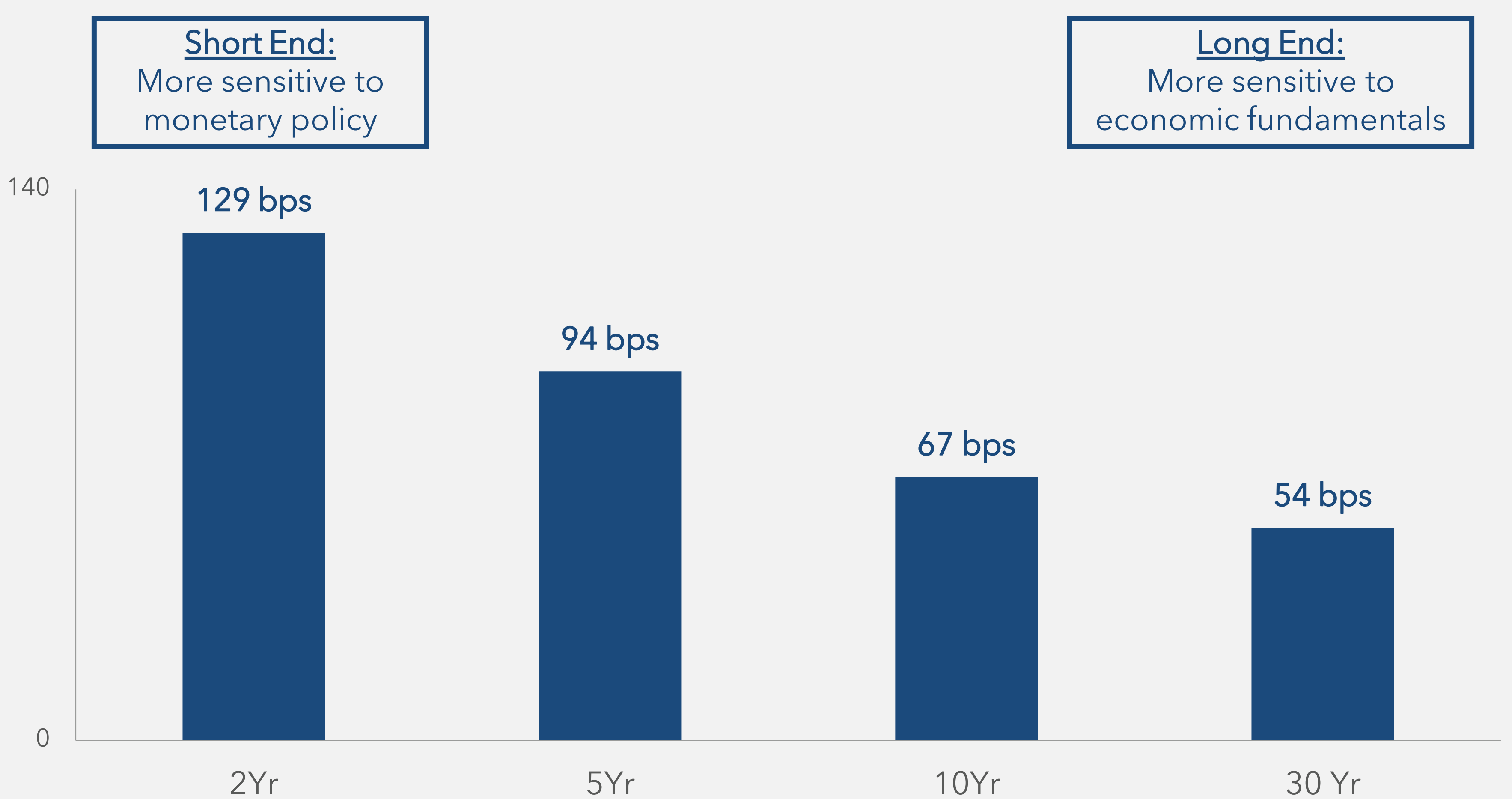
MUFG

Chart of the Day

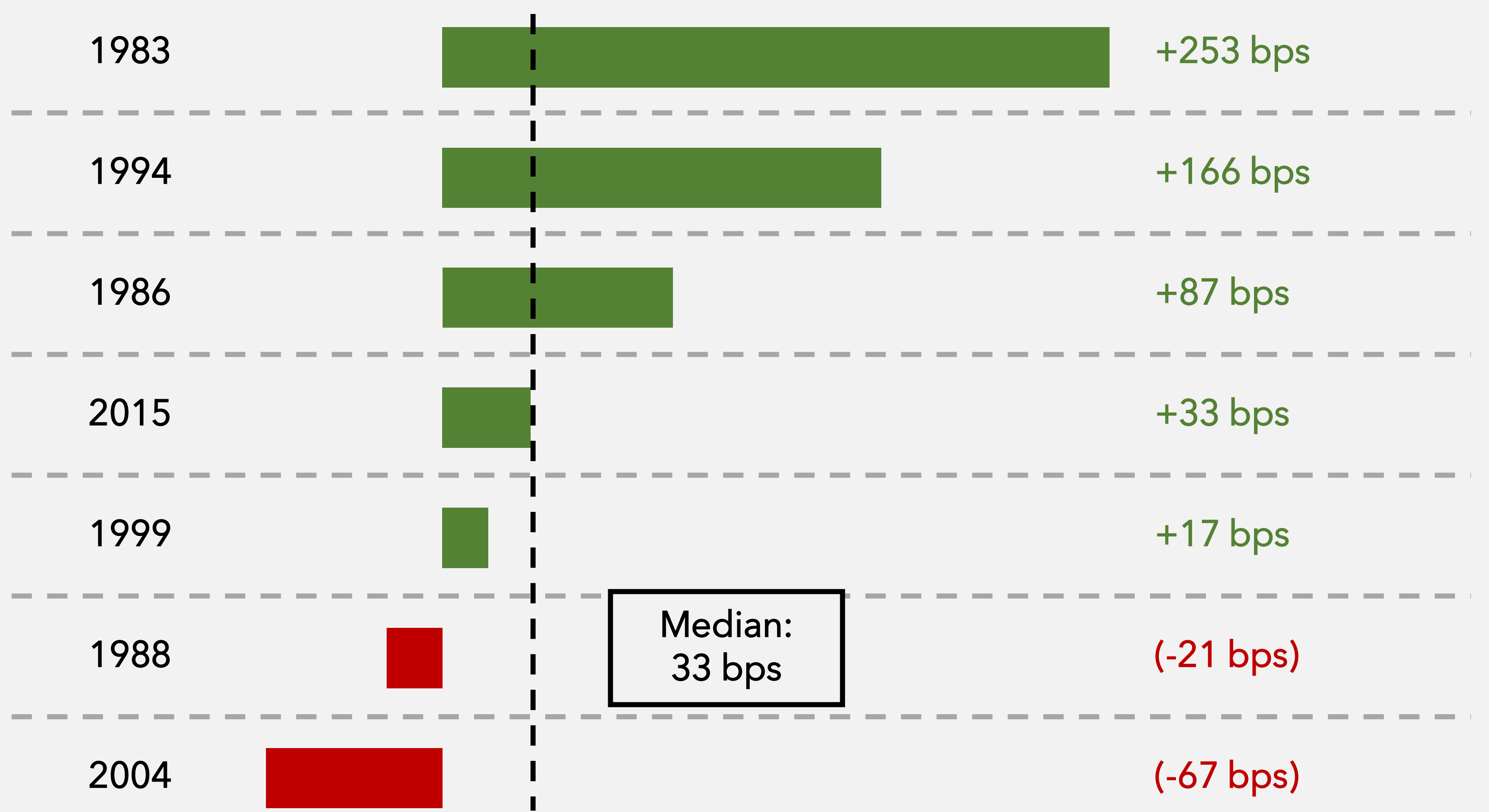
Historically, central banks have struggled to engineer a "soft landing," a challenge more formidable today given the significant global imbalances in a COVID-economy. Markets are entering a new and more difficult period of "higher structural volatility" as a more rapidly transmissible variant (Omicron) spreads globally, as inflation soars to the highest levels in a generation, and as the Fed executes a policy tightening into a decelerating global economy.

In prior tightening cycles, UST rates generally rose across the curve by 50 - 150 bps, with the front end more sensitive to monetary policy transition, and the long end generally more driven by economic fundamentals. This, in turn, drives a general "bear flattening" trend in most cycles, with much of the rate move occurring early. In the current cycle, rates have remained lower than prior tightening cycles as a result of decelerating growth, higher concern around policy errors, elevated tail risk and strong global technical factors.

Average UST yield change 12 months after Fed tightening



10yr UST yield change 12 months after Fed tightening



Source: (1-2) Bloomberg. Data as of December 9, 2021. Average across duration based on same seven cycles shown on right.

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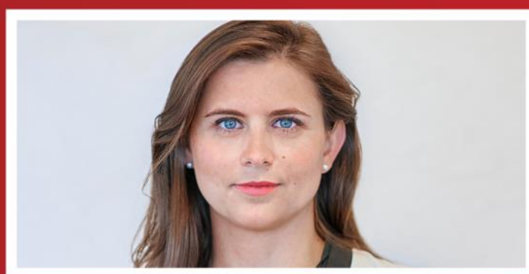

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