

## Painting a 3% to 4% range for the US 10yr

We are nearing the peak for US rates, but we are not there yet. The 10yr needs to get to a 4% handle, the 2yr to a 5% one and the funds rate should peak out at 5.5%. Sticky inflation and an economy that won't lie down rationalise a continuation of rising rates. But a dash lower in market rates is a theme for 2024, with an overshoot to the 3% handle the target for the 10yr



### The US curve has shifted higher. More to come as a 4% handle on the 10yr is coming

In recent weeks the US yield curve has shifted higher and the curve inversion has deepened further. The 10yr is now at 3.8%, and the 2yr is back above 4.8%, stretching the 2/10yr inversion back above 100bp. There is room for the 2yr to rise to 5% on the likelihood that the market prices out the rate cut bias just about discounted for the December 2023 meeting. Remember the 2yr was above 5% just before Silicon Valley Bank (SVB) went down.

## *The latest core PCE number at 4.9% reminds us that the US is still a '5% inflation economy'*

---

The latest core PCE number at 4.9% reminds us that the US is still a '5% inflation economy'. We think this will change (inflation will ease lower), but for now it is what it is until dis-proven. The issue is that activity data is not lying down. The latest consumer confidence number for June, for example, has popped back out to 109.7 (versus 100 at neutral). Market rates can only rise given this, albeit muted by recent good demand for bonds. Had it not been for this recent buying we'd already be at 5% for the 2yr and 4% for the 10yr yield. But based on what we see in front of us, we are likely to get there.

The rising pressure on market rates is also underpinned by a Federal Reserve that continues to sound quite a hawkish tone on worries that the inflation monster remains alive and well. The Fed skipped the rate hike opportunity for June, but seem very ready to resume hiking at the July meeting. There is over an 80% probability attached to a 25bp hike from that meeting. Beyond that, there is a 50:50 chance attached to the delivery of one final 25bp hike.

---

## *We target the 10yr Treasury yield to get back up to the 4% area for a while*

---

The rationale for maintenance of rate hikes for now is centred on the stickiness of inflation and the refusal of the economy to slow by enough to really quell inflation pressures. We actually think the Fed has done enough and could simply hold here rather than hike. But the Fed has made it pretty clear that it thinks it needs to keep hiking some more. The Fed will want to do the rate hiking exercise once, and not to have to come back again later and re-accelerate hikes.

We target the 10yr Treasury yield to get back up to the 4% area; back to where it was before the SVB induced rally in bonds and sell-off in risk.

## **But the peak in market rates is nearing, and the next big journey is towards a 3% handle in 2024**

At the same time, we note that lending standards have tightened significantly in recent months. On top of that there is a growing degree of concern with respect to the commercial real estate loans portfolios being held by US banks (a post-pandemic outcome). All of this adds to stresses coming from the banking sector, stresses that can hamper macro circumstances.

Already key US forward-looking indicators, such as PMIs and ISMs, are in recessionary territory. The external backdrop is not great either, with the eurozone having moved into a state of technical recession, and China showing only a subdued re-opening oomph. The move to the recessionary environment paves the route for interest rate cuts from the Federal Reserve by early 2024.

---

## *The idea then is for 2024 to be a year with a rate cutting theme*

---

The idea then is for 2024 to be a year with a rate-cutting theme. We see the Federal Reserve getting the funds rate down to 3% by the end of the year. Market rates will get there first. So, we see the 10yr Treasury yield heading to the 4% area in the next month, but by the end of 2023 it will be comfortably back below 4% with a view to heading towards 3%, likely overshooting to the downside.

The theme for the remainder of 2023 is for the 10yr to head for the 4% area, the 2yr to head for the 5% area, and for the fed funds rate to peak at 5.5%. The 10yr can then journey back down towards 3% through the first half of 2024, with the funds rate getting there by the end of 2024.

And provided the funds rate bottoms at 3%, then the 10yr Treasury yield should be heading back up again in order to generate a normal upward sloping curve. A move back up to 3.75% would have a suitable 75bp gap above the funds rate.

## Author

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).