



February 8<sup>th</sup>, 2021

## Treasury curve enters the show me phase

Recent steepening of the treasury curve has now entered Phase 2: The “show me” phase.

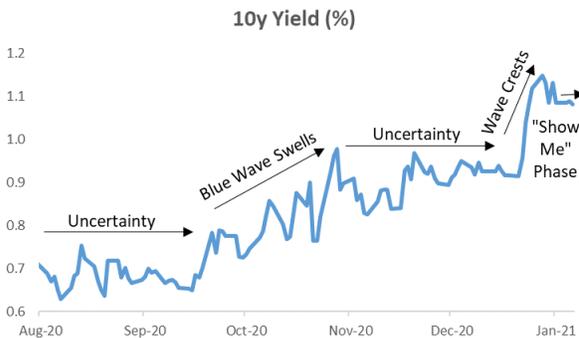
Phase 1 was a function of promise; for stimulus, certainty, mass vaccinations and recovery and all the spending and Treasury issuance associated with such things. Beginning with the runup to the Presidential election and ending with the Democratic sweep in Georgia, the blue wave has hit its crest, though (Chart 1).

Phase 2 of higher yields will now be data dependent: Inflation, growth, supply, and of course, demand. Untenable debt levels, strong economic growth, and domestic inflation that surprises to the upside means increasing interest rates, even with increasing foreign demand for US Government debt (Chart 2).

Phase 3, likely beginning in 2022, will be driven by the Federal Reserve. Tightening of monetary policy, starting with tapering, will serve as the biggest catalyst to a sustained move higher in yields.

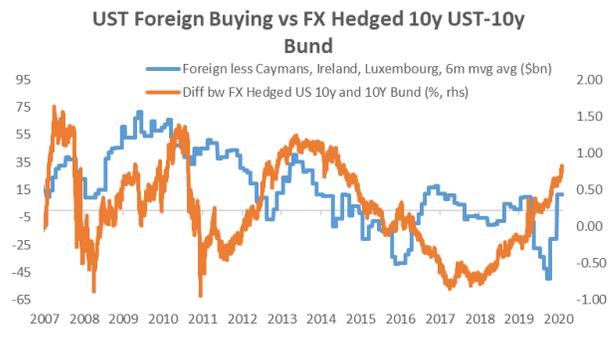
With Phase 1 now in the rear-view mirror, we expect a more muted rise in Treasury yields as we enter Phase 2 and await positive economic data. Putting further pressure on the pace of rising yields are foreign investors, who, after fleeing Treasuries for years, have recently begun to take interest in US Government debt again. While currency hedged US bond yields look attractive to Bunds and JGBs, though, larger deficits, inflation ([see Rich’s January 2021 Insights Report](#)), positive economic data, and at some point, a slowing of Fed purchases means foreigners will have to do more of the heavy lifting over time.

**10y Yields increased substantially on the prospects of blue wave and the hope for economic recovery:**



Source: Richard Bernstein Advisors LLC, Bloomberg

**Increased attractiveness of currency hedged Treasuries has begun to draw foreign investors back into USTs- for now:**



Source: Richard Bernstein Advisors LLC, Bloomberg, Treasury

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