



CIO continues to believe interest rates will decline by year-end, but trims some of its exposure, as the market is currently pricing in 60bps of Fed rate cuts in 2025. (UBS)

CIO trimming long interest rate exposure

27 February 2025, 5:37 pm CET, written by UBS Editorial Team US Editorial Team

CIO remains bullish on US interest rates, expecting a 4% 10-year yield by year-end, with an allocated preference for the five-year area of the yield curve. However, with the recent move lower in yields, we are trimming our long interest rate exposure, as we trend toward our 1Q25 objective of 4.25% 10-year yields.

CIO implemented a five-year Treasury long on 7 November as interest rates rose following the election. At that time, however, our expectation was for the Fed to cut 100bps in 2025. As growth proved more resilient, fueled by a strong labor market and sticky inflation, expectations of the future Fed terminal rate path began to rise. Since then, the consistent talk of tariffs by policymakers has only fueled short-end inflation expectations and the call for a high-for-longer Fed, with the market at one point pricing in a 20% chance of a hike in 2025. CIO adjusted our Fed forecast from 100bps of cuts to 50bps of cuts in 2025 in conjunction with the Fed's updated December SEP projections.

As the Fed has remained on hold over the past two meetings, the market has shifted from fears over inflation and the deficit (supply), which originally pushed 10-year yields up to 4.8%, to concerns over slower growth, as sentiment metrics, such as consumer confidence, continued to slow. Within the confidence sub-indices, the percent of consumers expecting fewer jobs over the next six months rose to the highest level since 2023. While sentiment measures are not necessarily known to be strong economic indicators, nominal yields have been coming down owing to the decline in real yields, signaling slower growth ahead. The volatility in equity markets has also been a tailwind to the recent decline in Treasury yields as a risk-off sentiment takes hold.

Yields rose steeply to start the year, as the Fed kept rates steady, the economy continued to prove resilient, and the new administration was viewed favorably by equity markets. However, with increased policy uncertainty there has been

a temporary risk off sentiment which has flattened the yield curve. We take the opportunity to reduce our interest rate risk and take our profits within our fixed income portfolio.

Although we continue to believe in the disinflation trend, and anticipate a slower but solid growth environment, the market is currently pricing in 60bps of cuts in 2025, a large shift from only three weeks ago, as well as an expectation of an announcement of pause in QT at the March Fed meeting. As a result, short covering from the investment community has pushed yields to our short-term objective.

We remain long the belly (five-to seven-year) area of the curve and look for rates to trend lower as the Fed begins to cut in the second half of the year.

Original report - [Time to trim the belly, 26 February 2025.](#)

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document's accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images ("images") herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.



For UBS marketing purposes

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.