RATES

A Buyer's Market for Real Yield

This report is excerpted from the Third Quarter 2026 Fixed-Income Sector Views.

Aggressive yield curve flattening has created an attractive entry for real yield compression trades in the front end and belly.

Rates repriced in the second quarter as investor expectations moved from a policy easing bias in favor of rate hikes. A series of economic, geopolitical, and policy catalysts reshaped the yield curve and the inflation outlook in quick succession, leaving the front end and belly of the curve meaningfully cheaper by quarter end and setting up an attractive entry point for real yield compression trades.

Sector Commentary

- Entering the second quarter, global central bank policy pricing was quite divergent—markets were priced for 25 basis points of easing in the United States compared to 50–75 basis points of hikes priced across Europe and the United Kingdom. By quarter end, robust labor market data, generally strong economic releases, and the global energy shock pushed the U.S. market towards a hiking bias as well.
- The convergence of global policy expectations drove a sharp bear flattening in Treasurys, with front-end yields increasing by 50 basis points. Fed Chair Warsh's hawkish debut on June 17 amplified the move in Treasurys, driving yields higher.

Investment Themes

- Elevated real yields, narrow breakeven inflation rates, and a likely patient Fed, make intermediate TIPS attractive relative to nominal Treasurys. If the Fed remains on hold, real yields should decline while breakeven rates rise. Conversely, if inflation remains high and prompts Fed rate hikes, higher inflation accruals should support TIPS returns.
- We have a mostly neutral curve view, but prefer to express some relative duration positioning in the short and intermediate part of the curve, where market pricing has moved the most.
- With headline Consumer Price Index inflation at 4.2 percent in May and breakeven rates generally trading below realized inflation, the Hormuz energy shock and ongoing tariff passthrough should keep near-term inflation accruals elevated before inflation starts to moderate later this year.

By Kris Dorr and Tad Nygren

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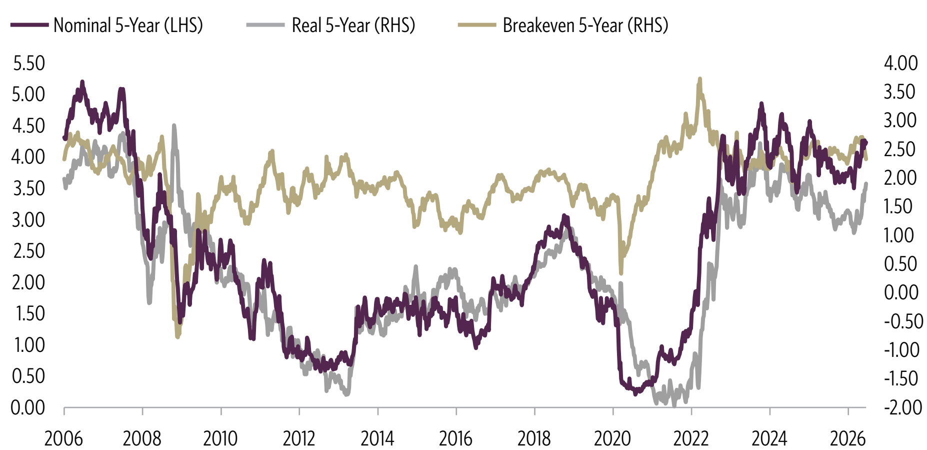
We See Value in the Short and Intermediate Part of the Curve

Historical 5-Year Treasury Nominal, Real, Breakeven Rates



Source: Guggenheim Investments, Bloomberg. Data as of 6.17.2026.

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One **basis point** is equal to 0.01%.

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