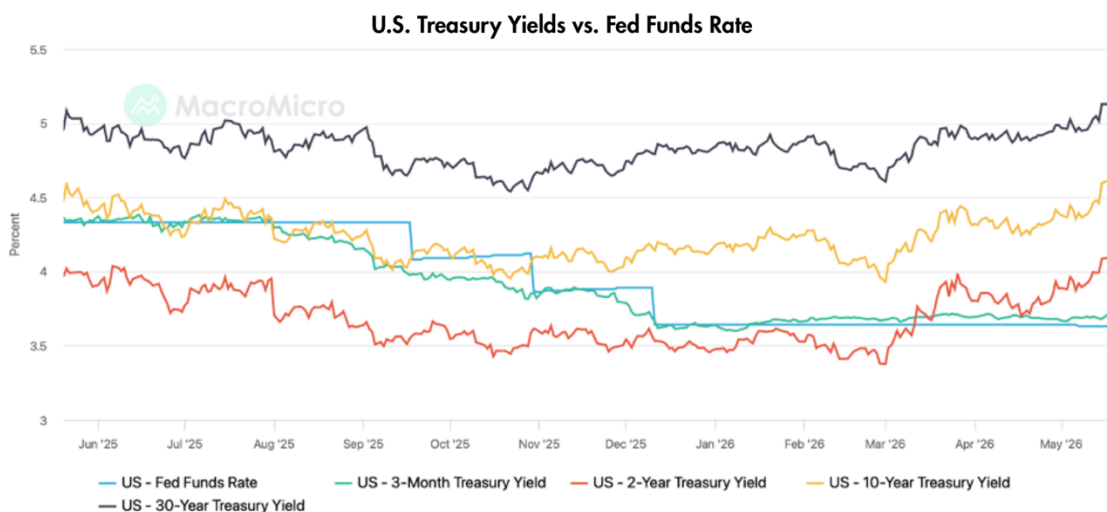


Why Long-Term Interest Rates Remain Elevated Despite Federal Reserve Rate Cuts

Despite a series of Federal Reserve interest rate cuts over the last two years (from 5.25% to 3.75%), U.S. long-term Treasury yields have remained roughly unchanged. The 10-year Treasury yield, the benchmark for the market interest rates, remains around 4.6%—roughly the same level since the Fed started cutting rates—leaving 30-year mortgage rates near 7%. Investors appear to be pricing in higher future inflation amid persistent government borrowing, large fiscal deficits, and a resilient labor market. More recently, inflation concerns tied to higher energy prices and oil market disruptions associated with the Iran conflict have added upward pressure on Treasury yields, a trend that is hoped to reverse once an agreement is reached. However, a widening gap appears to be emerging between Federal Reserve policy and investors' expectations, leaving new Fed Chair Kevin Warsh, who recently spoke about reducing the Fed's balance sheet, in a difficult position between political pressures and the fight against inflation.



Source: MacroMicro, *U.S. Treasury Yields vs. Fed Funds Rate*

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