DIMENSIONAL QUICK TAKE

How Do the Fed's Moves Affect Market Interest Rates?

FEDERAL-FUNDS RATE AND 10-YEAR TREASURY YIELD:
HOW OFTEN THEY MOVE IN SAME OR OPPOSITE DIRECTION
January 31, 1983–June 30, 2024

Investors may worry about the impact of interest rate changes by the Federal Reserve. But it's important to understand that the market and the Fed don't necessarily move in lockstep.

- Consider changes in the closely watched federal-funds rate, controlled by the Fed, and the yield on the 10-year Treasury note, a widely followed benchmark in the fixed income market.
- From January 31, 1983, to June 30, 2024, the Treasury yield moved in the same direction as the fed-funds rate nearly two-thirds of the time (bottom left, top right). But in roughly one-third of months when the Fed cut or raised rates, the yield on the 10-year moved in the opposite direction (top left, bottom right).
- The market is constantly pricing new information into bond yields, including anticipated changes by the Fed.

The federal-funds rate isn't a reliable predictor of how market interest rates will move in the future.

AMERICAS
Austin, Charlotte, Santa Monica, Toronto, Vancouver

EUROPE
Amsterdam, Berlin, Dublin, London, Munich

ASIA PACIFIC
Hong Kong, Melbourne, Singapore, Sydney, Tokyo

dimensional.com

Dimensional

MKT-48491 10/24 3977281