

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.

Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful.

Increases (+) and decreases (–) in the federal-funds rate and 10-year Treasury yield refer to monthly changes.

Source: Federal Reserve Economic Data (FRED) from the Federal Reserve Bank of St. Louis. Data series used: Market Yield on US Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis, Percent, Daily, Not Seasonally Adjusted (DGS10); Federal Funds Target Rate (DISCONTINUED), Percent, Daily, Not Seasonally Adjusted (DFEDTAR); and Federal Funds Target Range - Upper Limit, Percent, Daily, Not Seasonally Adjusted (DFEDTARU). Circles corresponding to a rate cut do not sum to 100% due to monthly periods of no yield change for the 10-Year US Treasury note.

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