

## US Rates Alpha

## Close 5yT long trade

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In [Long 5y outright or through proxies](#) from 3 Nov 23, we recommended clients expressed a long bias in the belly of the UST curve through:

- Outright 5y long, targeting 3.75% on the position with a stop at 4.90%
- 5s30s steepeners with a target of 90bp on the position and a stop at -20bp
- Long 3y1y receiver spreads atm/-50bp (currently +25bp, risk capped to premium).

## Rationale for the recommendation

The baseline scenario reflected in these recommendations is one where data recouples to soft landing. In these scenarios we expected the near-term curve bias to be for an outperformance of the belly vs. the wings, driven by: (1) belly forwards recoupling to neutral rate expectations as the market shifts the baseline view from no-landing to soft-landing; (2) the potential for neutral rate expectations to reprice lower to c.3-3.25% levels that we believe are more aligned with our economists view and the Fed's own estimates for the neutral.

## Closing the outright long 5yT position

The belly of the UST curve rallied c.50bp since we recommended these positions. Yields have recoupled back to macro fundamentals (see [Monthly rates models: Dec '23 edition](#) from 7 Dec 23) and risks start to be more balanced at current levels. In our view, the easy part of the rally is mostly done, and a further rally from here likely needs to be supported by a more significant normalization of macro fundamentals. We therefore favor closing the long 5yT position.

## Positioning bias from here

Medium term we continue to hold a bullish bias, and the 3y1y receiver spread (which we think makes sense to add at current levels) and 5s30s steepener positions continue to leverage that view. Near-term, however, we see scope for some consolidation and to turn more tactical outright duration.

We also put forth a trade idea discussed in our most recent rates weekly: steeper intermediate part of the SOFR curve (see [Doves of a Feather](#)). We recommend positioning for a steeper curve between SOFR Jun '25 & Jun '27 futures. This positions for a Fed that might cut rates faster than the market expects, more deeply below neutral, and find that the US economy rebounds more quickly or sees inflation re-accelerate faster than expected. This could imply a Fed that might need to hike rates again sooner than expected. We recommend entering the M5-M7 steepener at a level of -3bps with a target of 75bps and stop of -40bps. Risk to the trade is a Fed that keeps rates higher for longer and a market that prices a rapid cutting cycle between mid '25 & mid '27.

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**Refer to important disclosures on page 3 to 5. Analyst Certification on page 2.** 12637186

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Rates Research  
United States

**Bruno Braizinha, CFA**  
Rates Strategist  
BofAS  
[bruno.braizinha@bofa.com](mailto:bruno.braizinha@bofa.com)

**Ralph Axel**  
Rates Strategist  
BofAS  
[ralph.axel@bofa.com](mailto:ralph.axel@bofa.com)

**Mark Cabana, CFA**  
Rates Strategist  
BofAS  
[mark.cabana@bofa.com](mailto:mark.cabana@bofa.com)

**Meghan Swiber, CFA**  
Rates Strategist  
BofAS  
[meghan.swiber@bofa.com](mailto:meghan.swiber@bofa.com)

**Katie Craig**  
Rates Strategist  
BofAS  
[katie.craig@bofa.com](mailto:katie.craig@bofa.com)

**Anna (Caiyi) Zhang**  
Rates Strategist  
BofAS  
[cai yi.zhang@bofa.com](mailto:cai yi.zhang@bofa.com)

**US Rates Research**  
BofAS  
+1 646 855 8846

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For a list of our open trades and those closed over the last 12 months, see the latest [Global Rates Weekly](#)

**Exhibit 1: Horizon for the first Fed cut (y-axis in months)**

First Fed cut now priced at a 3m horizon



Source: BofA Global Research

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# Research Analysts

---

## US

### **Mark Cabana, CFA**

Rates Strategist  
BofA  
+1 646 743 7013  
[mark.cabana@bofa.com](mailto:mark.cabana@bofa.com)

### **Ralph Axel**

Rates Strategist  
BofA  
+1 646 743 7011  
[ralph.axel@bofa.com](mailto:ralph.axel@bofa.com)

### **Bruno Braizinha, CFA**

Rates Strategist  
BofA  
+1 646 743 7012  
[bruno.braizinha@bofa.com](mailto:bruno.braizinha@bofa.com)

### **Katie Craig**

Rates Strategist  
BofA  
+1 646 743 7016  
[katie.craig@bofa.com](mailto:katie.craig@bofa.com)

### **Meghan Swiber, CFA**

Rates Strategist  
BofA  
+1 646 743 7020  
[meghan.swiber@bofa.com](mailto:meghan.swiber@bofa.com)

### **Anna (Caiyi) Zhang**

Rates Strategist  
BofA  
+1 646 743 7021  
[cai yi.zhang@bofa.com](mailto:cai yi.zhang@bofa.com)

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