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Macro Roundup Artcile

Headline: Don’t Rely (Too Much) On Implied Forward Rates When Predicting Future Interest Rates

Article Link: https://blog.rangvid.com/2024/06/02/dont-rely-too-much-on-implied-forward-rates-when-predicting-future-interest-rates/

Author(s)	Jesper Rangvid
Publication	Rangvid's Blog
Publication Date	June 03, 2024

Tweet: The 10-year Treasury currently yields 4.5% and market-implied forward rates project close to 4.5% in ‘34 and ‘44. Jesper Rangvid notes that such projections too closely track recent rates and are usually not good predictors. He forecasts lower rates.

Summary: There is a high correlation between current interest rates and expected interest rates as implied by market-implied forward rates. As the US ten-year interest rate today is around 4.5%, this means that these models predict that the US ten-year interest rate will also be around 4.5% in 2034 and 2044. Academic research has found that such expectations are usually not good predictions of future outcomes. An alternative could be to look at expectations based on sound economic modeling, such as estimates of future r*. These estimates suggest that future interest rates will be low.

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