

Macro Roundup Article

Headline: [The Fed's Bullishness Is Pushing Up Rates](#)

Article Link: <https://theovershoot.co/p/the-feds-bullishness-is-pushing-up>

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Tweet: [@M_C_Klein](#) notes that the spot 5-year yield on TIPS is at levels not seen since before the financial crisis. He suggests that if term premia revert to historical levels, there would be negative implications for all asset prices.

Summary: Even if wage growth did normalize, it is not clear why interest rates would need to fall much, if at all, in a world of 2% real growth, 2% inflation, and healthy private sector balance sheets. Real yields on 5-year Treasury inflation-protected securities (TIPS) are currently about 0.5 percentage point higher than 5-year real yields starting five years from now. But from 2003 until the pandemic, spot 5-year real rates were about 1pp lower than forward rates. (This includes the flat curve years of 2006-7 and 2018-2019, when the spread was more or less zero.) If further-forward real yields were poised to revert to this longer-term average, then that would have implications for a range of asset prices.

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