





Comparative Analysis: Why 2s5s over 2s10s 1. Precision in Pricing a Mid-Cycle Fed Easing Phase 10y Anchoring Risks: 2s5s Sensitivity: The 5y tenor is highly reactive to shifts in the neutral rate and expectations for The 10y yield faces structural headwinds in 2025 (e.g., U.S. fiscal deficit mid-cycle policy adjustments. If growth slows and inflation normalizes by 2025, concerns, QT unwind debates, or climate-driven supply shocks), which could the Fed is likely to signal incremental cuts, driving a disproportionate rally in the mute its response to Fed easing. This creates asymmetric upside for a 2s5s 5y (vs the 10y) as the market prices a "soft landing" scenario. flattener as the 5y rallies faster than the 10y. Why 2025? A 2025 Fed pivot would occur after lagged effects of 2023–2024 hikes fully materialize. The 5y's "belly" positioning makes it a cleaner proxy for this mid-cycle adjustment, while the 10y remains burdened by post-2025 structural risks. 2. Avoiding Long-Term Term Premium Volatility By 2025, the 10y term premium is expected to rise due to: **Fiscal Dominance Global Policy Divergence** Climate/Energy Transition Costs Structural inflation pressures may persist due to energy Markets will grapple with U.S. debt sustainability By 2025, major central banks (e.g., ECB, BOJ) may start transition policies, including underinvestment in fossil fuels tightening policy or reducing their reliance on ultra-easy (post-2024 election spending commitments) and and the rising cost of green energy subsidies. These factors $% \left\{ 1\right\} =\left\{ 1\right$ monetary measures. This shift could decrease demand could push up the long-term real yield premium, creating a potential supply/demand imbalances for longfor long-term U.S. Treasuries as a "safe haven," leading to disconnect between long-term rates and the Fed's policy dated Treasuries. higher term premiums and greater yield curve volatility. Why 2s5s? The 5y tenor is insulated from these forces, as its horizon aligns with the Fed's 2025 reaction function (e.g., "higher for longer" or gradual cuts). A 2s5s flattener isolates exposure to policy-driven repricing rather than structural term premium noise. urce: Bloomberg, FRED, BEA

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