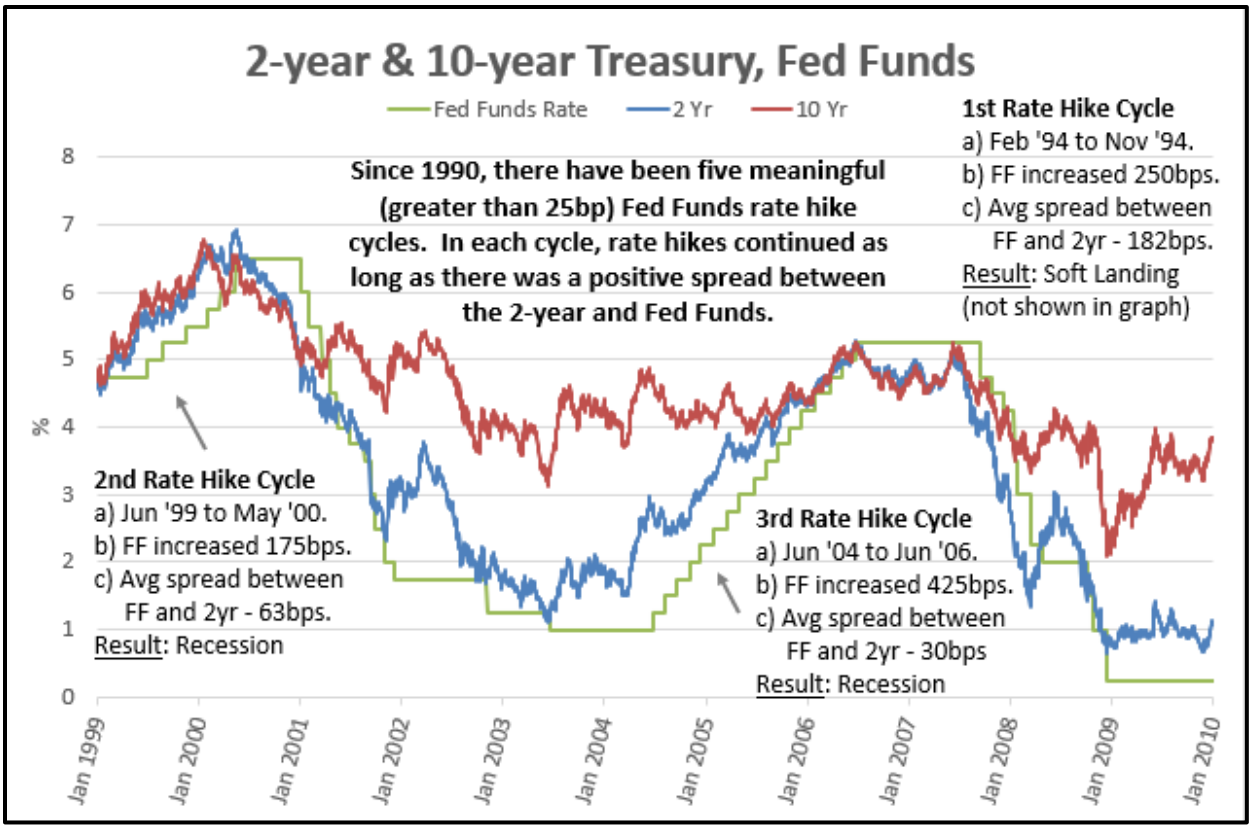
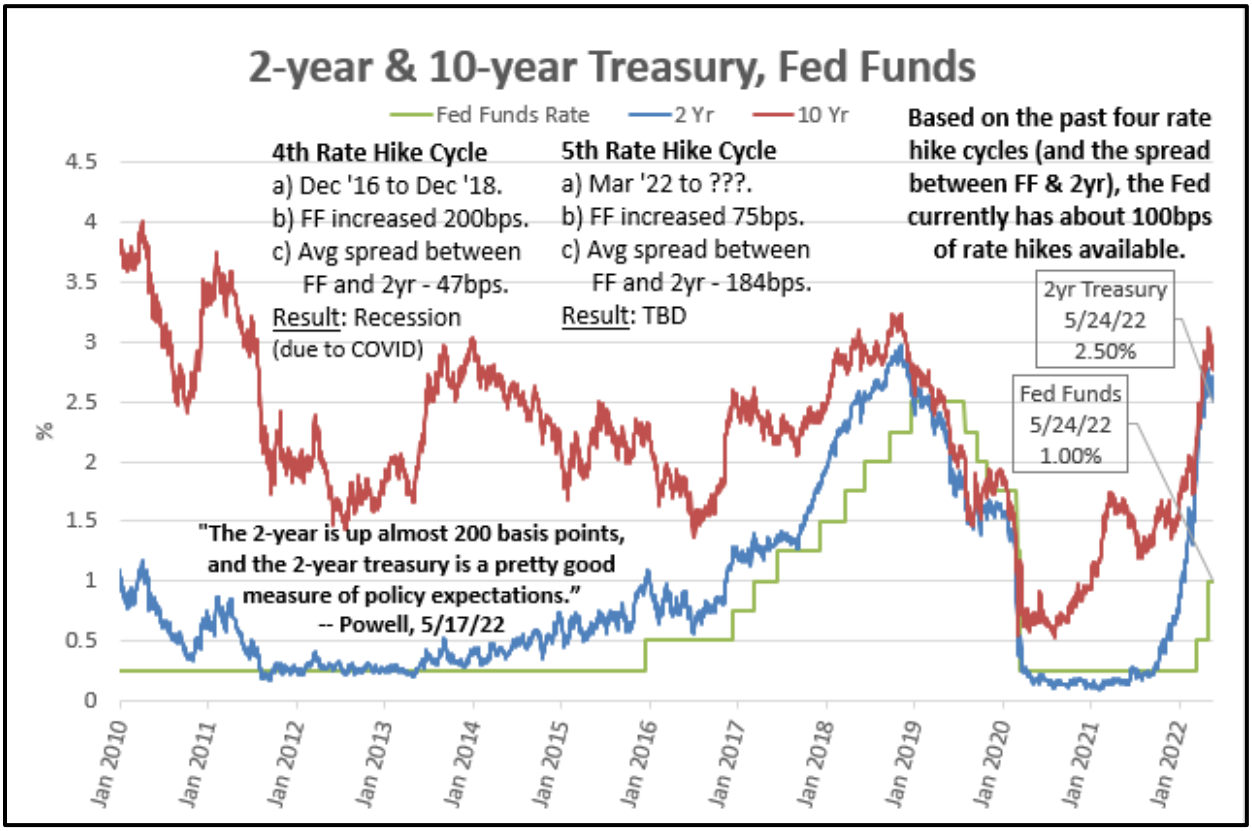

2-year & 10-year Treasury, Fed Funds
Fed Funds Rate
2 Yr
10 Yr
Since 1990, there have been five meaningful (greater than 25bp) Fed Funds rate hike cycles. In each cycle, rate hikes continued as long as there was a positive spread between the 2-year and Fed Funds.
1st Rate Hike Cycle
a) Feb '94 to Nov '94.
b) FF increased 250bps.
c) Avg spread between FF and 2yr - 182bps.
Result: Soft Landing
(not shown in graph)
2nd Rate Hike Cycle
a) Jun '99 to May '00.
b) FF increased 175bps.
c) Avg spread between FF and 2yr - 63bps.
Result: Recession
3rd Rate Hike Cycle
a) Jun '04 to Jun '06.
b) FF increased 425bps.
c) Avg spread between FF and 2yr - 30bps
Result: Recession
%
0
1
2
3
4
5
6
7
8
Jan 1999
Jan 2000
Jan 2001
Jan 2002
Jan 2003
Jan 2004
Jan 2005
Jan 2006
Jan 2007
Jan 2008
Jan 2009
Jan 2010


2-year & 10-year Treasury, Fed Funds
Fed Funds Rate
2 Yr
10 Yr
4th Rate Hike Cycle
a) Dec '16 to Dec '18.
b) FF increased 200bps.
c) Avg spread between FF and 2yr - 47bps.
Result: Recession
(due to COVID)
5th Rate Hike Cycle
a) Mar '22 to ???.
b) FF increased 75bps.
c) Avg spread between FF and 2yr - 184bps.
Result: TBD
Based on the past four rate hike cycles (and the spread between FF & 2yr), the Fed currently has about 100bps of rate hikes available.
2yr Treasury
5/24/22
2.50%
Fed Funds
5/24/22
1.00%
"The 2-year is up almost 200 basis points, and the 2-year treasury is a pretty good measure of policy expectations."
-- Powell, 5/17/22
%
0
0.5
1
1.5
2
2.5
3
3.5
4
4.5
Jan 2010
Jan 2011
Jan 2012
Jan 2013
Jan 2014
Jan 2015
Jan 2016
Jan 2017
Jan 2018
Jan 2019
Jan 2020
Jan 2021
Jan 2022