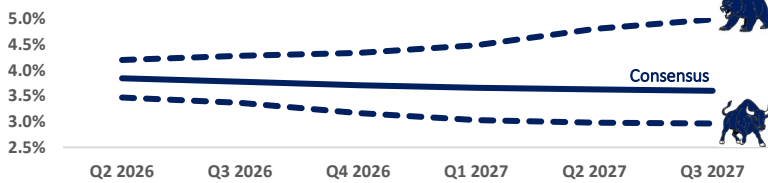


Briefing

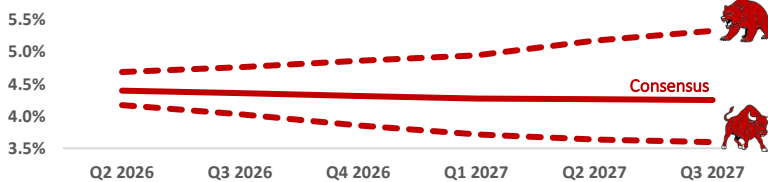
- When the Federal Reserve purchases Treasuries, it removes them from circulation and injects reserves into the banking system. The expansion of reserves can put downward pressure on interest rates but upward pressure on inflation. When the Fed sells Treasuries, reserves decline, potentially putting downward pressure on inflation but upward pressure on interest rates. Starting in late 2025, the Fed stopped allowing Treasuries to roll off its balance sheet, which caused the Fed's balance sheet to stabilize. Since late-December, the Fed has resumed purchasing short-term Treasuries (**Figure 1**).
- The Fed can put different pressures on different interest rates. From December to June, the government issued \$342 billion in marketable short-term debt—an increase of 5.3%. To counteract the upward pressure this put on short-term rates, the Fed purchased much of the issuance. The result is that non-Fed public holdings increased only 1.6%. Conversely, the Treasury's outstanding long-term debt grew 3.5%, but because the Fed purchased so little of it, long-term debt holdings among the non-Fed public increased by 3.9% (**Figure 2**).
- Following the longest yield curve inversion in the Fed's history, 10-year yields have remained above 2-year yields for almost two years. However, the spread between 10-year and 2-year yields remains around half of what it was prior to the "great inversion" (**Figure 3**).

Chart of the Week

2-Year Treasury Yield Forecasts



10-Year Treasury Yield Forecasts



Commentary

This month, the Blue Chip panel of forecasters provided 42 independent forecasts of Treasury yields for the current and the next five quarters. Taking the average of these forecasts balances the optimists with the pessimists, producing a consensus forecast. The consensus is the best guess as to future interest rates. Separately, the disagreement among the individual forecasts yields a range over which one can expect to find 95% of all professional forecasters. This is the agreement range. For interest rates, the top end of the agreement range represents the most pessimistic forecasters. The bottom end represents the most optimistic.

As of June 1, the consensus is that 2-year Treasury yields will end the year at just under 3.7% then drop slightly to 3.6% by the third quarter of 2027. Bullish forecasters have it dropping to as low as 3.0%. Bearish forecasters have it rising to 5.0% (**Chart of the Week**).

The consensus is that 10-year yields will end the year at around 4.3% and hold there through Q3 2027. Optimists have it falling to 3.6% and pessimists see it rising to 5.3%.

Snapshots

Figure 1. Fed Treasury Holdings by Tenor (Billions)

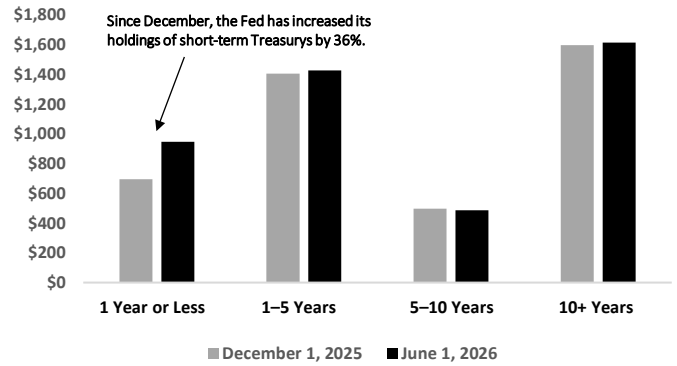


Figure 2. Treasuries Held by Non-Fed Public (December 1 to June 1)

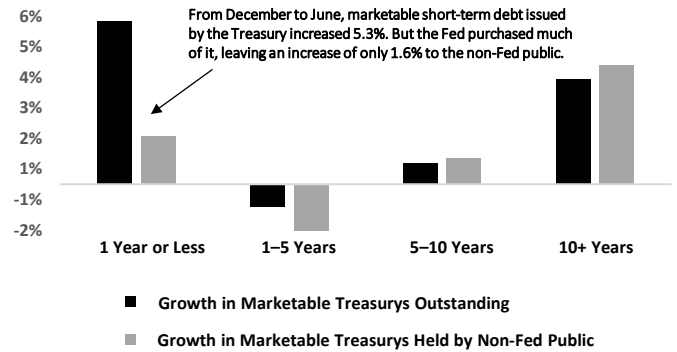
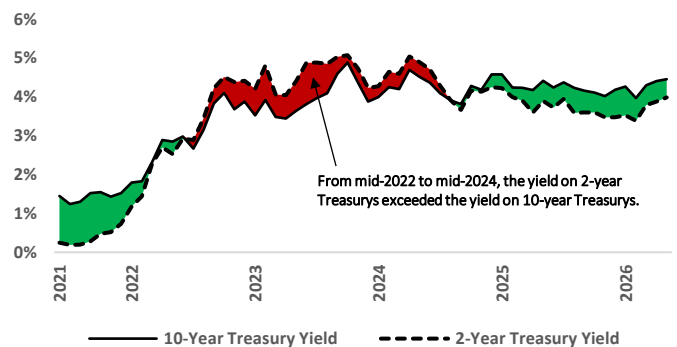


Figure 3. 10-Year, 2-Year Treasury Yield Spread (Green Is a Positive Spread; Red Is an Inversion)



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Key Indicators

INTEREST RATES ¹	2026			2027		
	Current	Q3	Q4	Q1	Q2	Q3
Fed Funds Target ² (%)	3.75	4.00	4.25	4.25	4.25	4.25
SOFR (%)	3.62	3.55	3.50	3.43	3.35	3.28
2Y UST (%)	4.22	3.77	3.71	3.66	3.63	3.60
5Y UST (%)	4.27	3.96	3.92	3.88	3.86	3.84
10Y UST (%)	4.50	4.36	4.31	4.28	4.26	4.25
30Y UST (%)	4.93	4.93	4.89	4.85	4.83	4.81

ECONOMY	2026			2027		
	Current	Q3	Q4	Q1	Q2	Q3
PCE Inflation (YoY %)	3.8	2.8	2.5	2.5	2.3	2.1
CPI Inflation (YoY %)	4.2	2.9	2.5	2.4	2.3	2.2
Real GDP (QoQ %)	1.6	1.8	1.9	2.0	2.0	2.1
Unemployment (%)	4.3	4.4	4.4	4.4	4.4	4.4
Consumer Spending (QoQ %)	1.4	1.7	1.9	1.9	2.0	2.0
Industrial Production (YoY %)	1.7	1.4	1.2	1.6	1.7	1.7

Equities & Currency

	Current	Year ago	YoY Δ
DJIA	51,832	42,582	21.7%
Nasdaq	26,549	19,631	35.2%
S&P 500	7,525	6,025	24.9%
US Dollar Index	\$1,219.15	\$1,208.22	0.7%

Commodities

	Current	Year ago	YoY Δ
Crude Oil (Per Barrel)	\$73.86	\$68.51	7.9%
Natural Gas (Per MMBtu)	\$3.27	\$3.81	(14.1%)
Coal (Per Short Ton)	\$14.40	\$10.73	35.1%
Gold (Per Ounce)	\$4,207.1	\$3,368.5	24.9%
Corn (Per Bushel)	\$4.13	\$4.19	(1.5%)
Soybean (Per Bushel)	\$11.24	\$10.59	6.2%

Industry

	Current	Year ago	YoY Δ
Natural Gas Storage (Billion Cubic Feet)	2,759	2,788	(1.0%)
U.S. Daily Power Consumption (MWh)	11,261,701	13,618,124	(17.3%)
World Container Index (Per 40ft)	\$3,969	\$3,279	21.0%

¹ Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.
² Target rate forecast is based on futures market contracts.

Sources: © Oxford Economics, Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Oxford Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.

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Forecasts

