Goldman Sachs Research

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Global Markets Daily: Fed Communication And Term Premium

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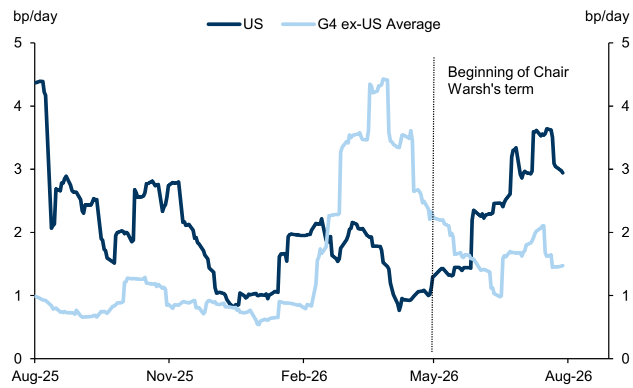
- The shift in the Fed's communication approach has supported a pickup in volatility around the policy path and across the curve in US rates. We think the increased policy uncertainty behind that volatility has contributed to the recent rise in term premium that took long-end yields to multi-cycle highs.
- The increase in term premium has come amid signs of sluggish appetite to accumulate long duration exposure through the selloff. In addition to macro risks and policy uncertainty, the broader debt supply backdrop has likely contributed to the cautious demand picture.
- Positioning could become a tailwind, as the underweight positioning signal usually implies falling term premium in the following months. We also find that term premium increases driven purely by higher uncertainty tend to decay partially in the following weeks.
- Despite these observations, we do not find long-end UST yields as particularly misvalued relative to fundamentals. A change in communication that curtails uncertainty around the policy path and reaction function could support some term premium compression, but a substantial rally likely requires support from a shift in fundamental factors.
- In this vein, we view the recently announced increase in liquidity buybacks by Treasury as reflecting greater willingness to actively manage the supply/demand balance for USTs. However, absent some shift in underlying macro drivers of recent volatility, relief could prove relatively short-lived beyond the announcement effect.

Fed Communication And Term Premium

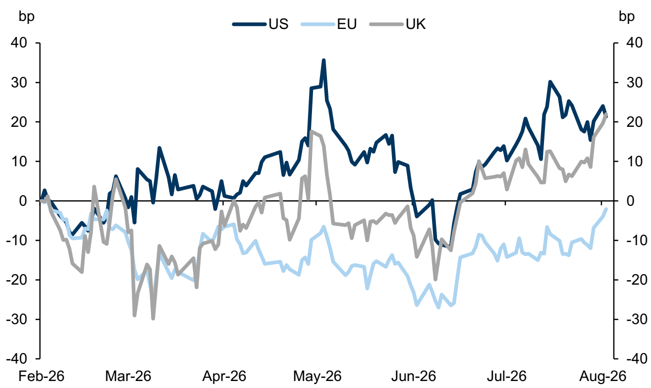
The shift in the Fed's communication approach has raised uncertainty around the policy path, supporting a pickup in volatility across the curve in US rates (Exhibit 1). While visible throughout the curve, the pickup has been most pronounced at the front-end, suggesting an important role of the reduced transparency in driving that volatility. Higher uncertainty around the policy path typically translates into higher term premium, pointing to the change in Fed communication as a factor behind the recent pick-up in term premium, which in turn has pushed long-end yields to new highs (Exhibit 2).

Exhibit 1: Ambiguity around the Fed's reaction function has led to a pickup in US rates volatility
1m rolling standard deviation of daily changes, 6m US vs G4 ex-US yields



Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

Exhibit 2: Higher US yields relative to peers have been driven by higher term premium
10y Term Premium, GS estimate



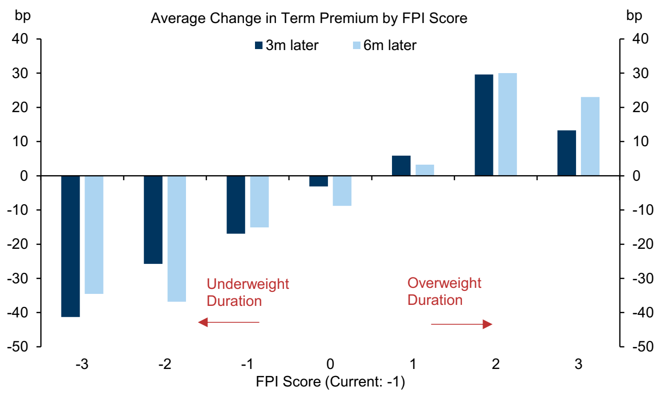
Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

Changes in other typical drivers of volatility—such as inflation and growth expectations, and uncertainty around those expectations—would usually point to lower volatility. We think this underscores the role of the Fed's new communication approach—which our economists noted risks providing markets with less information and more noise—as a factor contributing to the shift in policy uncertainty and in turn term premium.

The increase in term premium has come alongside signs of limited appetite to accumulate long duration exposure, which has potentially supported the rise in yields. The broader debt supply picture—including elevated corporate borrowing—has likely contributed. While we have argued against an outsized effect from the greater duration supply from credit on the UST curve, we did find that periods of heavier private sector borrowing tend to skew UST yields above a fair value implied by macro fundamentals.

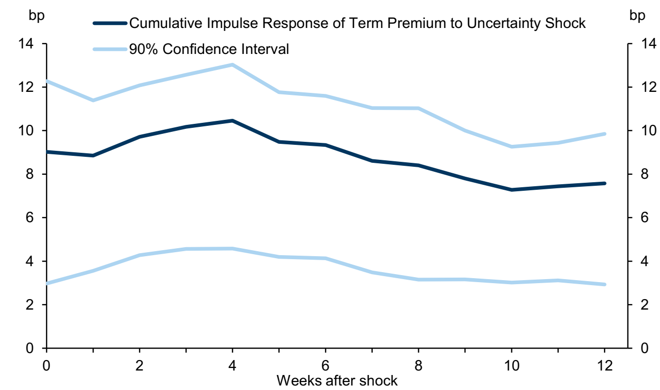
That said, positioning could become a tailwind in weeks ahead, as the signal from underweight duration positioning, as measured by our Funds Positioning Indicator (FPI), implies that term premium usually declines in the months following the initial signal (Exhibit 3).

Exhibit 3: Underweight duration positioning typically signals falling term premium in following months
Average change in 10y Term Premium, GS estimate, conditional on Funds Positioning Indicator (FPI)



Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

Exhibit 4: Term premium increases driven purely by uncertainty tend to decay after a while
Change in 10y Term premium in response to 1 Std Uncertainty Shock, identified via sign restrictions



Source: Goldman Sachs Global Investment Research

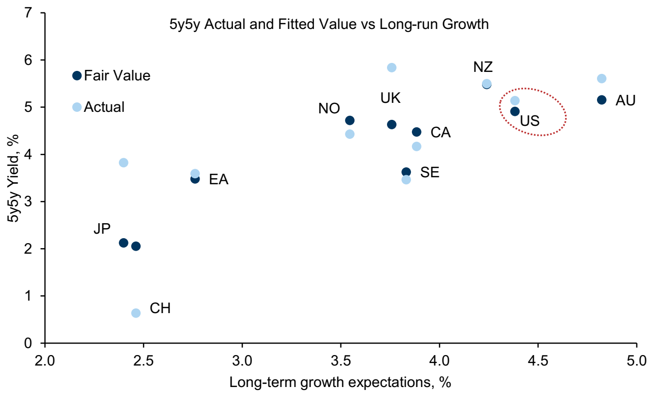
We also find that term premium increases driven purely by higher uncertainty tend to be less sustainable than shocks driven by a reassessment of the macro backdrop. For that, we use a sign-restrictions approach to split the sample into periods where volatility rises alongside higher term premium (i.e. an uncertainty shock) and episodes where volatility rises but term premium declines (and, usually, rate expectations rise). This exercise shows that uncertainty shocks initially raise term premium, but that effect partially decays (by about one-quarter to one-third) in the following weeks (Exhibit 4).

Despite the broader selloff, long-end UST yields are not particularly misvalued against macro fundamentals or peers (Exhibit 5). And we expect the challenging fiscal outlook and uncertainty around AI financing needs to keep a floor under long-end yields for now. This should limit the potential compression from a decay in the impact of uncertainty channel premium alone, absent a substantial change in Fed communication that clarifies the reaction function.

We view the recently announced increase in liquidity buybacks by Treasury as a signal for greater willingness to use unconventional tools to support long-end yields, which could provide near-term headwinds to a steeper curve. However, similar to what we have argued for the broader JGB picture and recent Yen intervention, absent a shift that addresses the underlying macro drivers, too, the effects could prove relatively short-lived beyond the announcement effect.

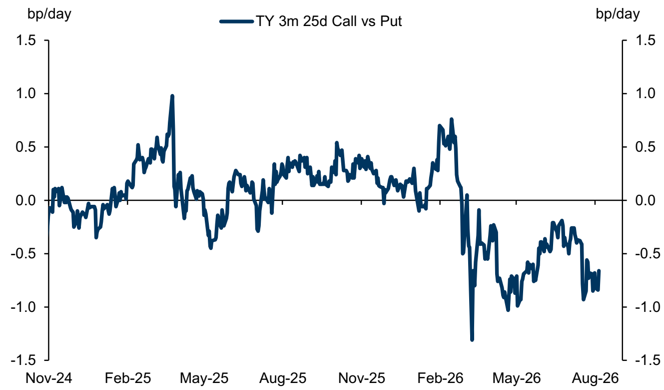
The market is still putting comparatively more weight on upside than downside risks to yields (Exhibit 6), despite some encouraging fundamental news. We think this leaves sustained accumulation of benign inflation data, which increase confidence in an on-hold baseline for the Fed and shift the skew of risk back, as the clearest route for lower yields for now.

Exhibit 5: Long-end UST yields not particularly misvalued against macro fundamentals



Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 6: Market still positioned for risk of higher yields
TY 3m 25d Risk Reversal



Source: Goldman Sachs Global Investment Research, Bloomberg

Best Trade Ideas Across Assets
For pricing, charts, and a list of previous recommendations, please visit our Trade Ideas page.

1. Stay short SGD/MYR, opened January 24, 2026, at 3.13, with a target at 2.90 and a stop at 3.30, currently trading at 3.18.
2. Stay long TRY, NGN and KZT against the USD, as an equally weighted basket, opened February 18, 2026, at 0%, with a total return target of 7.5%, and a revised stop of 1.5%, currently trading at 6.9%.
3. Stay long 3y SOFR swap spread, opened 17 April 2026, at -22.6bp, with a revised target at -14bp inclusive of carry; and a revised stop at -19bp, currently trading at -17.5bp.
4. Stay short USD/EGP, opened 24 April 2026, at 0%, with a revised total return target at 12% and a revised stop at 5%, currently trading at 8.3%.
5. 1y forward 2s10s GBP OIS steepeners, opened 29 May 2026, at 0.38, with a target at 0.55 and a stop at 0.25, currently trading at 0.33.
6. Stay long INR 30y bonds, opened 27 June 2026, at 7.34%, with a target at 6.90% and a stop at 7.65%, currently trading at 7.41%.
7. 2s10s NZD steepeners, opened 03 July 2026, at 72bp, with a revised target at 95bp and a revised stop at 80bp, currently trading at 85bp.
8. 2s10s CAD steepeners, opened 10 July 2026, at 53bp, with a target at 80bp and a revised stop at 58bp, currently trading at 60bp.
9. Stay short AUD/NZD, via 6m (14 Jan 2027) 1.1650 puts, opened 14 July 2026, at 1.2000, currently trading at 1.2003.
10. Stay long NIFTY Banks vs. short NIFTY Pharma, opened 15 July 2026, at 100 in local

currency (INR), with a target at 115 and a stop at 90, currently trading at 98.

11. 2s5s SOFR steepeners versus OIS flatteners in Europe, opened 31 July 2026, at -7bp, with a target at 10bp and a revised stop at -7bp, currently trading at -5bp.
12. Stay short PLN/HUF, opened 5 August 2026, at 84.12, with a target at 80.5 and a stop at 87, currently trading at 84.27.
13. Close pay 5y5y JPY vs EUR 5y5y OIS, opened 7 August 2026, at 10bp, for a potential flat return.
14. Receive 10y AUD swap, opened 14 August 2016, at 5.10, with a target at 4.80 and a stop at 5.25, currently trading at 5.18.
15. Buy a 6m1y A/A-40/A-80 receiver fly, opened 14 August 2016, at 9bp running, with a at target 20bp and a stop at 4bp, currently trading at 8bp.

Global Interest Rates Strategy

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