



Treasury Market Absorbs Fed's Increase

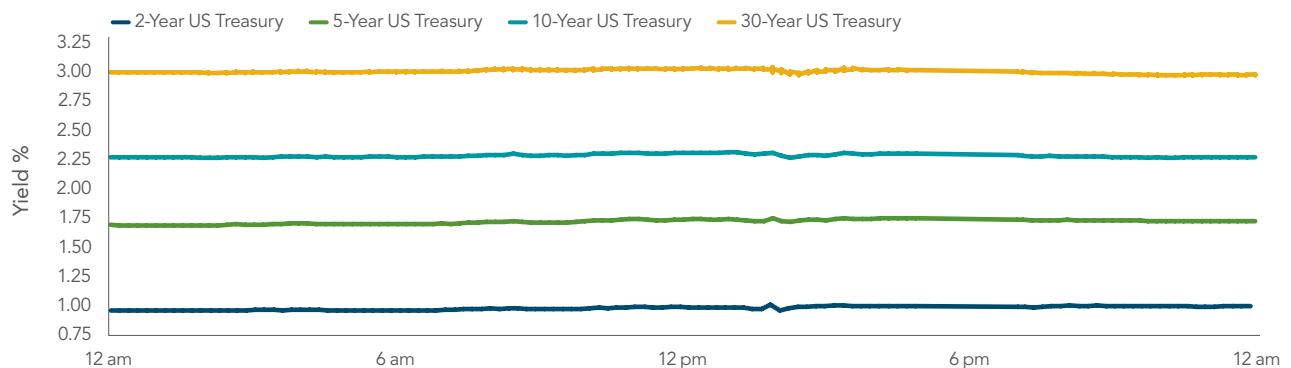
December 2015

In our recent paper “Short-Term Rates on the Rise,” we discussed the increase in short-term interest rates that has been underway since 2013. We also posed a complex question: Has the market been leading the Fed to increase interest rates, or has the Fed been leading the market by setting expectations for the purpose of not surprising market participants?

Although we still do not know the answer, both scenarios may have led us to the same outcome experienced

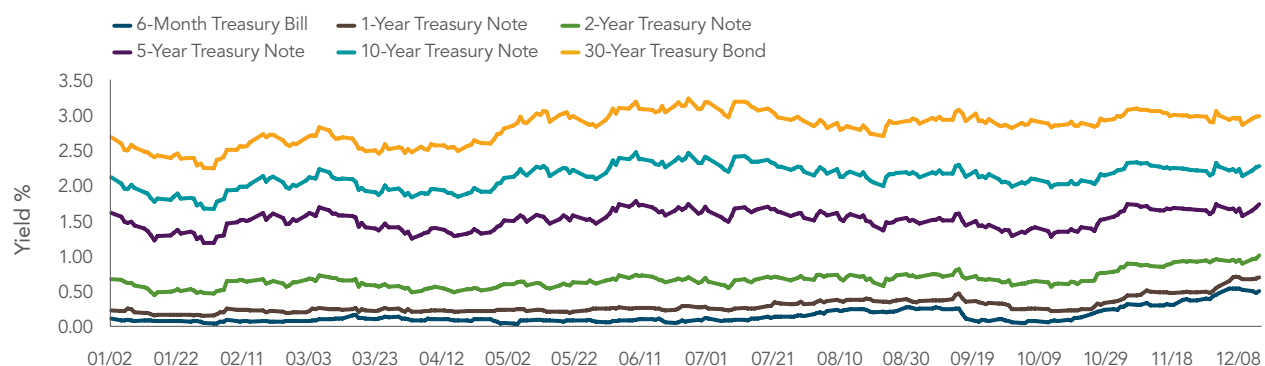
The market was unsurprised and able to digest, without a catastrophic loss, the first increase in the federal funds target rate since 2006.

Exhibit 1: Intraday US Treasury Yields (December 16, 2015)



Source: Bloomberg LP 2015.

Exhibit 2: US Treasury Yields in 2015 (through December 16)



Source: Barclays Bank PLC 2015.

on December 16—a market that was unsurprised and able to digest, without a catastrophic loss, the first increase in the federal funds target rate since 2006. In fact, yields on US Treasuries ended the day relatively unchanged from the previous trading period and in some cases below their highs for the year.

The market’s ability to reflect the probability of different outcomes and events in security prices reinforces the greater importance of focusing on asset allocation and diversification as opposed to parsing information from “news” in an attempt to forecast future market activity.

The 6-Month US Treasury bill yield ended 3 basis points¹ (bps) lower, the 1-Year US Treasury note 1 bps higher, and the 2-Year US Treasury note 4 bps higher.²

1. One hundredth of one percent.
 2. US Department of the Treasury.

Source: Dimensional Fund Advisors LLC

Fixed income securities are subject to increased loss of principal during periods of rising interest rates and may be subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. Sector-specific investments can increase these risks.

All expressions of opinion are subject to change. This information is intended for educational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

