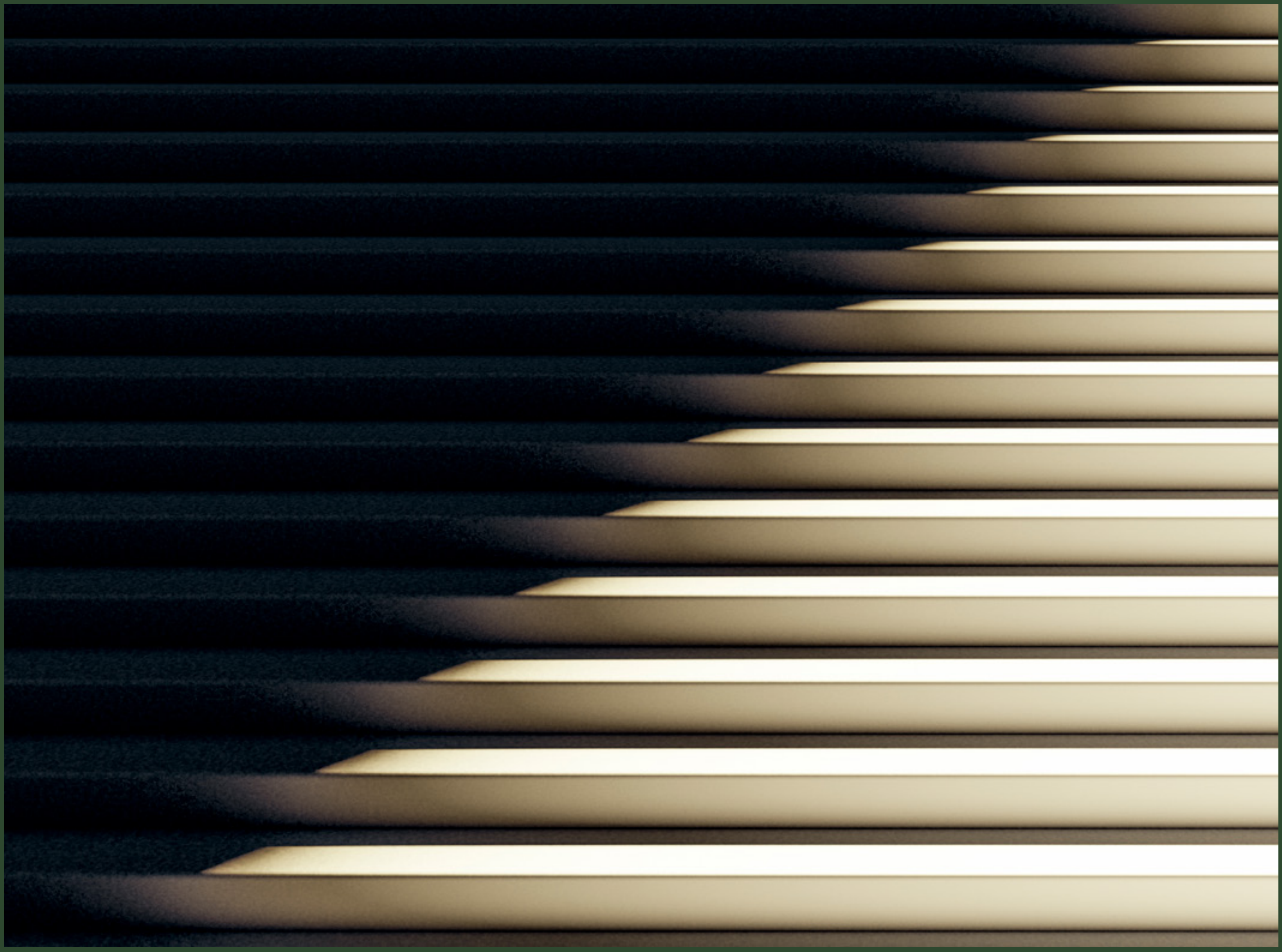
Scott Bessent's Big Gamble:

Can the Treasury Tame Yields?



FLEXTION It's about *time.*

After hitting historic lows during the depths of the pandemic panic in March 2020, U.S. longer-term Treasuries experienced one of the sharpest bear markets on record.

With unprecedented debt levels in both the public and private sectors requiring refinancing at significantly higher rates, this posed a serious threat to the U.S. economy. Even as the Federal Reserve initiated rate cuts, the move backfired—rising long-term inflation expectations counteracted the easing, causing rates to surge by over 100 basis points.

Scott Bessent, the newly appointed Treasury Secretary, has made long-term interest rates—particularly the 10-year yield—a key focus. This benchmark rate influences mortgage, corporate and consumer borrowing costs.

He has stated, "The Fed controls the short end and the Treasury the long end of the curve," making it clear that his objective is to lower 10-year interest rates. Rather than employing direct intervention methods like Japan's "Yield Curve Control," Bessent is pursuing a broader economic rebalancing through deregulation, tax incentives, tariff policies and aggressive fiscal spending cuts. His aim is to stimulate growth on "Main Street vs. Wall Street" by fostering an economy that produces more and borrows less.

Long-term U.S. bonds have started to rally in response to this strategy, as it alleviates fears of policies designed to inflate and erode government debt. However, Bessent acknowledges that his policy mix will front-load economic pain, with the potential for delayed stimulus as lower rates take effect. His assertion that "this will be the Trump economy after 6-12 months" is a calculated effort to buy time and deflect blame during what is already shaping up to be a slowdown or recession. In just the past four weeks, the Atlanta Fed's GDPNow model has slashed its forecast for first-quarter 2025 growth from +3.9% to +0.4%.

Bessent is determined to bring down long-term rates, even if it means enduring short-term economic weakness.

However, multiple headwinds—including a weakening dollar, tariff-driven price increases, foreign Treasury selling and the challenge of delivering meaningful fiscal spending cuts—could undermine his plan. Still, just as investors are cautioned not to "fight the Fed," it may also be wise not to "fight the Treasury." This could present a shorter-term tactical opportunity before the next reflation and stimulus cycle; extending duration in U.S. government bonds may help offset equity volatility and generate positive returns in this uncertain investment climate.

The Flextion platform has identified a selection of highly rated bond funds worth considering as long-term interest rates decline. We've also highlighted inflation-protected strategies that align well with the long-term growth objectives of the evolving policy landscape.

- T. Rowe Price US Treasury Long-Term Index Fund
- iShares 7-10 year Treasury Bond ETF
- iShares 20+ year Treasury Bond ETF
- Western Asset Inflation Linked Income Fund
- GMO Asset Allocation Bond Fund
- PIMCO Long-Term Real Return Fund
- Invesco Equal Weight 0-30 Year Treasury ETF
- Blackrock Global Inflation Protected Securities Fund
- PIMCO Long-Term US Government Fund
- Rydex Government Long Bond 1.2X Strategy Fund

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About the Author

Paul Ehrlichman, Flextion's CEO and CIO, has over four decades of experience in portfolio management, leveraging fundamental and quantitative research to develop investment processes and strategies that enhance client returns and manage risks in volatile markets. He has led equity teams focused on global and international value strategies, serving a diverse client base that includes individuals, pension funds, and endowments at several leading global asset managers.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between "clock time" and "market time," empowering investors to unlock long-term value and uncover hidden performance potential.

For more information contact:

Paul Ehrlichman, CEO and CIO ▸ **paul@flextion.com**
Bevin Crodian, President and COO ▸ **bevin@flextion.com**