



A Crude Awakening for the U.S. Bond Market

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A geopolitical crisis in the Middle East upends the rate-cut narrative and sends Treasury yields, and volatility, surging.

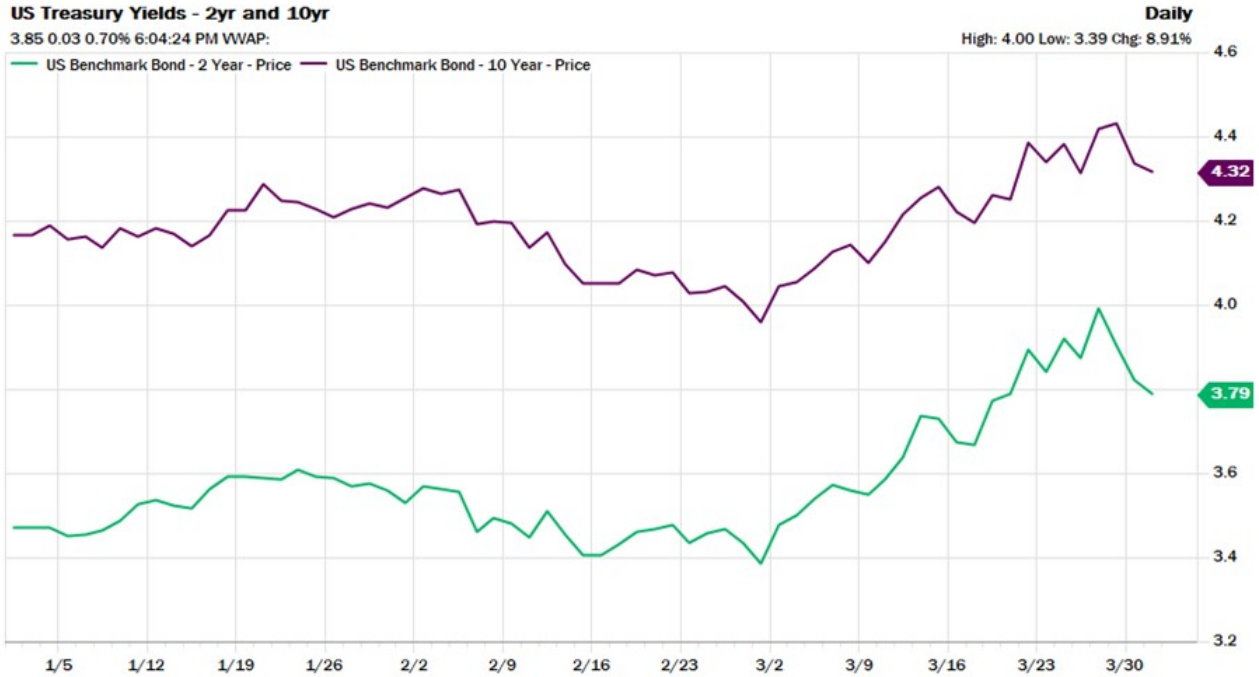
In the [fourth quarter Wealth Report](#), we highlighted how three consecutive years of declining Treasury volatility had brought a sense of calm to bond markets. There was a feeling of normalcy returning, as inflation gradually moderated, energy prices settled into multi-year lows, and the path to rate cuts came into focus. That calm was short-lived. The first quarter of 2026 delivered a sharp reminder that fixed income markets, and particularly the global benchmark U.S. Treasuries, can be highly sensitive to global geopolitical happenings. The outbreak of war in the Middle East and the subsequent closure of the Strait of Hormuz sent crude oil prices surging toward ~\$120 per barrel, a ~50% gain in March alone. The impact of war is multi-fold, from the cost of military activity, to surging fuel costs, to disruption of supply chains, among other factors, all of which were immediately priced into the U.S. yield curve. The 10-year Treasury yield climbed from just below 4.00% in early February to ~4.50% at the peak in March, the highest level since July of last year. The 30-year yield hit 5%. The MOVE Index, a key measure of bond market volatility, spiked to its highest level since last April's "Liberation Day", well into "extreme stress" territory. The spike in volatility was only outdone in recent years by the regional banking crisis of 2023.

Given the new and rapidly evolving backdrop, the Federal Reserve stood pat. The March FOMC meeting concluded with an 11-1 vote to keep rates unchanged. Chair Powell acknowledged that the surge in energy prices and a hotter-than-expected inflation print created "significant uncertainty" around the path forward. The market's prior conviction around multiple rate cuts in 2026 has not just been tempered but completely reversed. Fed funds futures pricing shifted to implying a *rate hike* by year end. The 2-year Treasury yield spiked as much as 0.60% in March alone, flipping from fully pricing one rate cut to fully pricing one rate hike in just three weeks. The change reflects the risk of the FOMC raising rates to combat higher energy costs flowing into inflation.



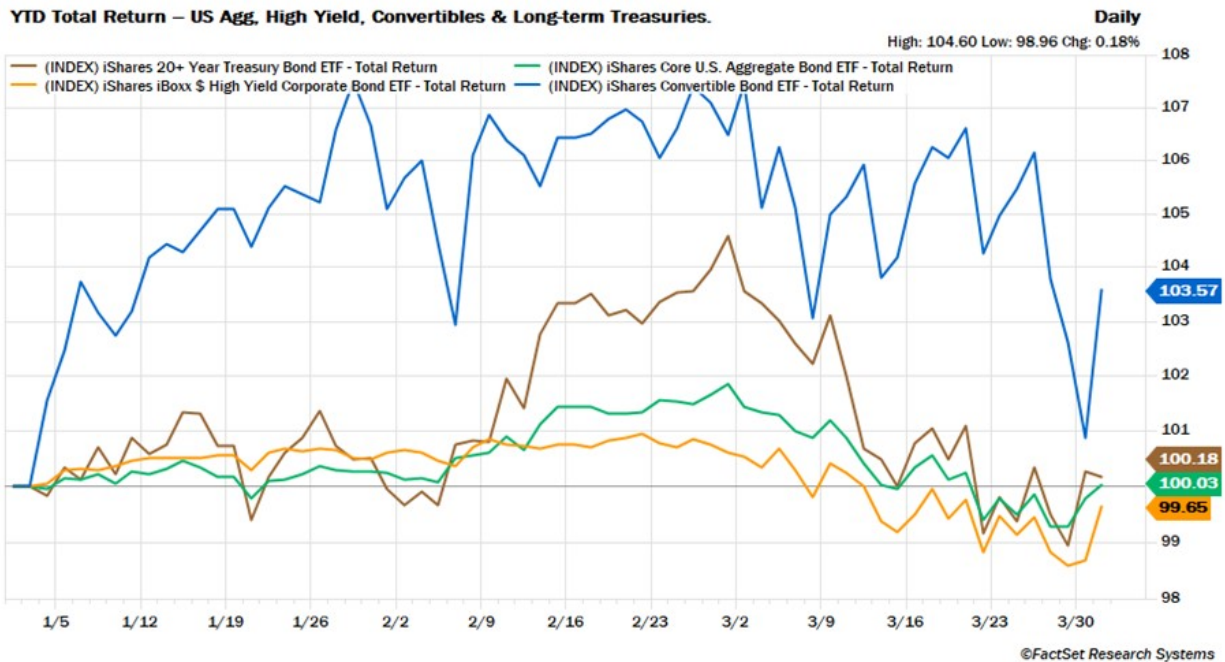
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Treasury Yields Surge amid Energy Crisis, Cost of War



Source: FactSet

Q1 2026 Performance



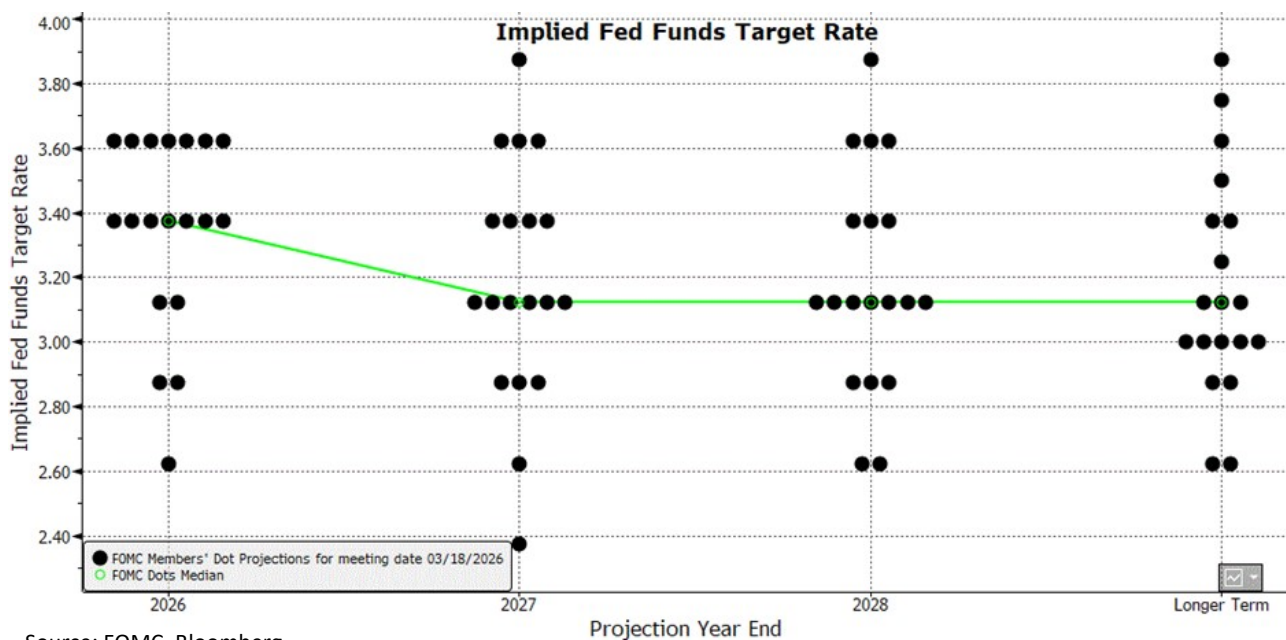
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Other Items of Interest

March FOMC Dot Plot

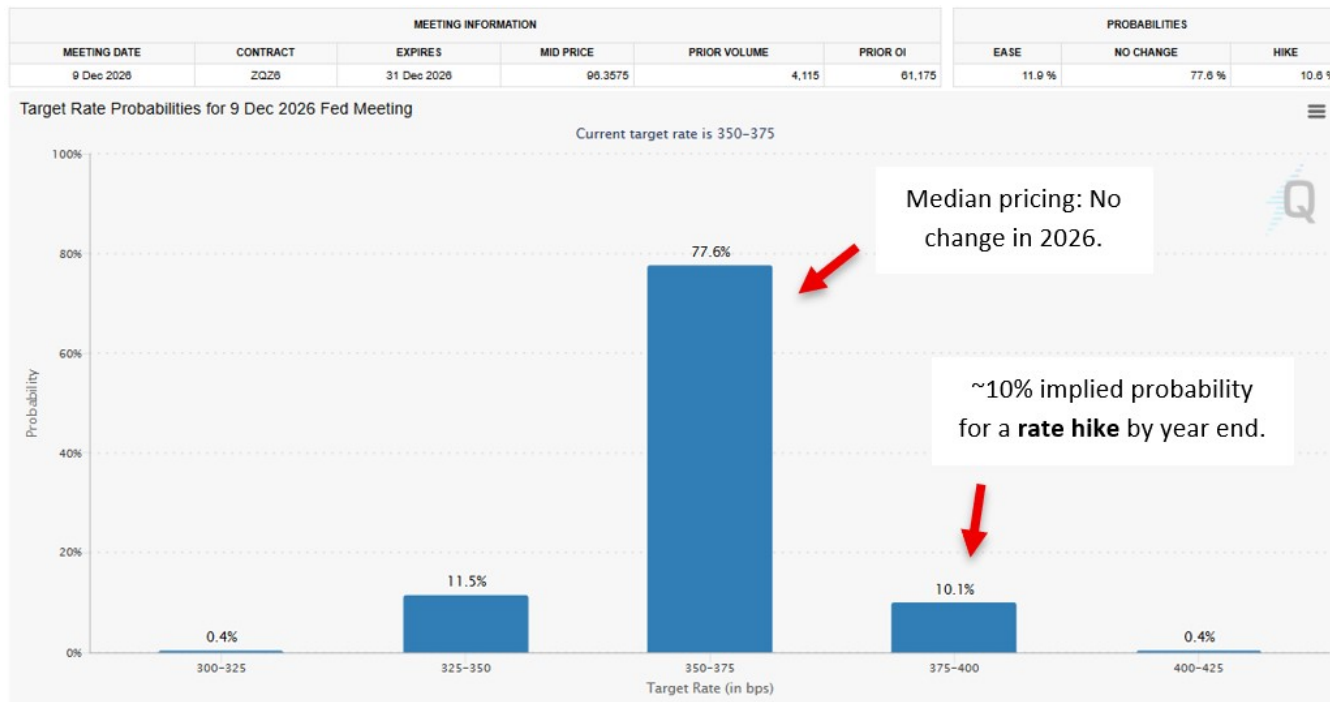
The FOMC’s March Dot Plot reflects a more cautious outlook. The median projection calls for just one rate cut in 2026, in line with December, however the number of members seeing two or more rate cuts fell from eight to five. The committee remains quite divided: seven members see no change this year, seven see one cut, and five see two or more. At the March meeting, Governor Miran was the lone dissenter in the 11-1 vote, preferring a quarter-point cut, but aside from him, the rest of the voting members remain apprehensive to change policy in the current environment. While the near-term picture is clouded by the energy shock stemming from the conflict in the Middle East, the longer-run projections continue to point toward a terminal rate (i.e., “Longer Term”) around 3%.



Fed Funds Futures Pricing

In the most dramatic shift in rate expectations since the hiking cycle of 2022, the market has not only abandoned the rate-cut trade but in fact shifted toward expecting a rate *hike*. As of late March, fed funds futures pricing had assigned a ~30% probability that the Fed would raise rates at least once before year-end. However, as of this writing in early April, the market has moderated that view to a 10% probability (table below). Futures positioning points to the September and November FOMC meetings as the most likely candidates for action, by which point the Fed will have several additional months of inflation and jobs data, in addition to a potential resolution of the situation in Iran, to evaluate.

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Source: CME Group, as of April 6, 2026

Update on FOMC Chairman Nomination

The saga of the Federal Reserve chairmanship took several new turns in the first quarter. President Trump nominated Kevin Warsh on January 30th, a name we flagged as a top contender in prior editions of the Wealth Report, and the nomination was formally sent to the Senate on March 4th. However, the confirmation process has faced significant obstacles: Senator Thom Tillis has pledged to block any Fed nominees until the Department of Justice drops its criminal investigation into Chair Powell, and Democrats on the Banking Committee have taken a similar stance. However, in a late-quarter development, the Senate Banking Committee signaled it is now preparing to move forward with a confirmation hearing, with plans pointing to the week of April 13th. Chair Powell, for his part, stated at the March press conference that he will serve as “chair pro tem” (as “required by law” – as Powell did in 2022 awaiting his own re-nomination) if Warsh is not confirmed before his term ends in May. The timeline remains tight, but the scheduling of a hearing represents meaningful progress. We expect to see this topic come back toward center stage during the second quarter. ■

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