

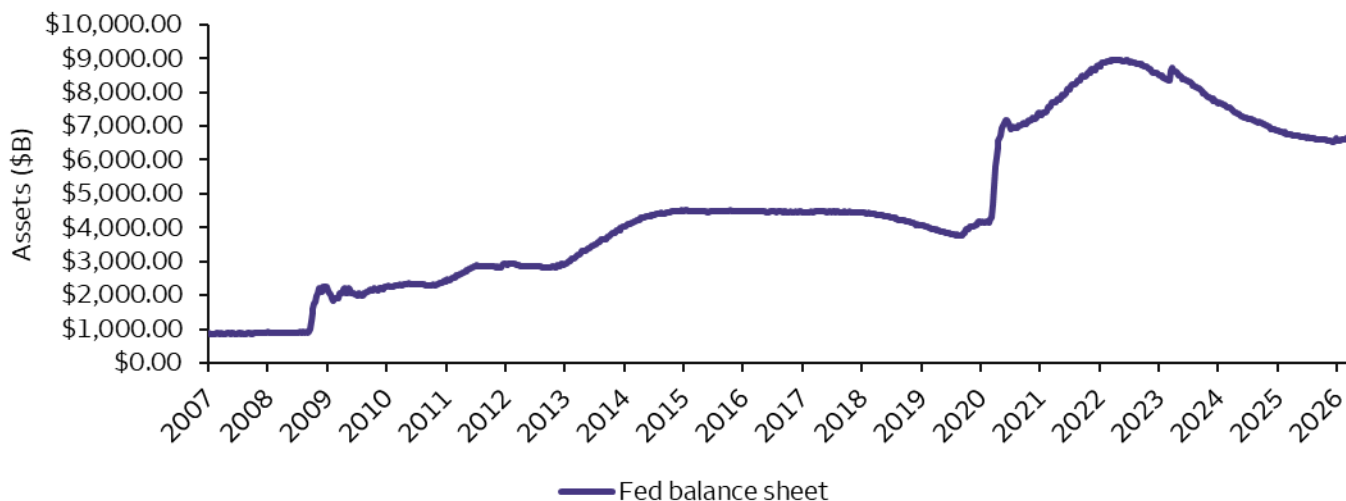


Chart of the Week

Weekly analysis of key themes in markets

June 2, 2026

Proposed balance sheet plans may add upward pressure to yields



Sources: Federal Reserve, data as of May 6, 2026. Measures total assets of the Federal Reserve (Fed) less eliminations from consolidation. B = billions. The Fed's balance sheet primarily consists of Treasuries and Mortgage-Backed Securities.

The Fed's plan to reduce its balance sheet could be a headwind for long-term taxable fixed income

Federal Reserve (Fed) Chairman Kevin Warsh has stated his intended priority to reduce the Fed's holdings of bonds on its balance sheet. Though Warsh cannot make decisions unilaterally, he believes this approach will give the Fed flexibility to lower short-term policy rates. Reducing the Fed's bond holdings could push long-term bond prices down and yields higher, as fewer buyers would be supporting the market.

As shown in the chart, the Fed's balance sheet has ballooned in recent decades, peaking in 2022 at more than eight times its pre-Great Financial Crisis value. Even after attempts to rein in the balance sheet, it ultimately settled at well-above pre-COVID levels.

What it may mean for investors

When the Fed reduces securities purchases or sells holdings, a greater supply of bonds must be absorbed by private investors. This change in dynamic may negatively impact Treasury prices and lead to higher yields. While shrinking the Fed's balance sheet is not guaranteed, it poses another risk for long-term yields. With the potential for long-term taxable fixed income yields to continue to rise from here, we remain unfavorable on long-term taxable fixed income. Intermediate-term bonds, in the 3–7-year maturity range, may provide a better mix of risks and return potential.

Tony Miano, CFA, CAIA, Investment Strategy Analyst

Excerpted from Investment Strategy report (May 18, 2026)

Investment and Insurance Products: > NOT FDIC Insured > NO Bank Guarantee > MAY Lose Value

Risk Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation, and other risks. Prices tend to be inversely affected by changes in interest rates. Although **Treasuries** are considered free from credit risk, they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

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