

INTERMEDIATE BONDS MAY RISE AS CASH RATES FALL

INVESTMENT VIEWS
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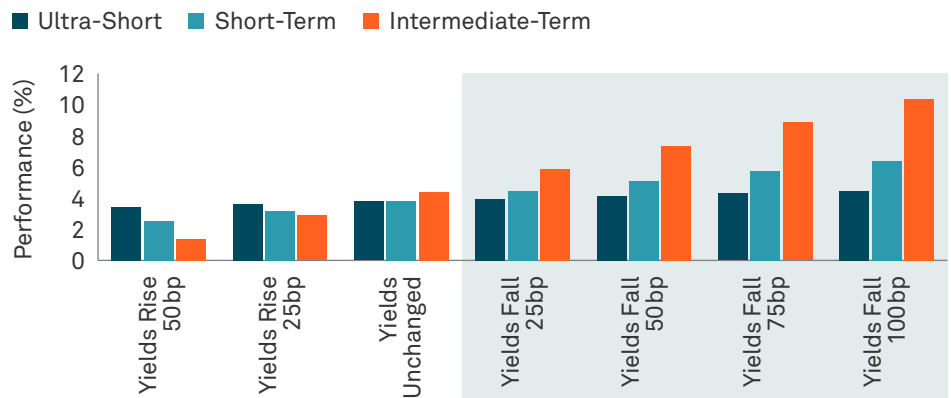
October 2025

At the September Federal Open Market Committee meeting, the Federal Reserve (Fed) reduced its benchmark interest rate by 25 basis points. We expect two additional rate cuts in 2025, absent any meaningful positive surprises in the labor market data.

Bonds in a shifting yield environment

When interest rates move, not all bonds respond the same way. Using current bond metrics such as yield to worst, duration and convexity, we illustrate how different types of bonds (ultra-short, short-term and intermediate-term) might perform if yields increase or decrease. The main takeaway from our analysis: **intermediate-term bonds offer greater price appreciation potential as yields decline compared to shorter maturities.**

HYPOTHETICAL CHANGE IN YIELD OVER 12 MONTHS AND PERFORMANCE

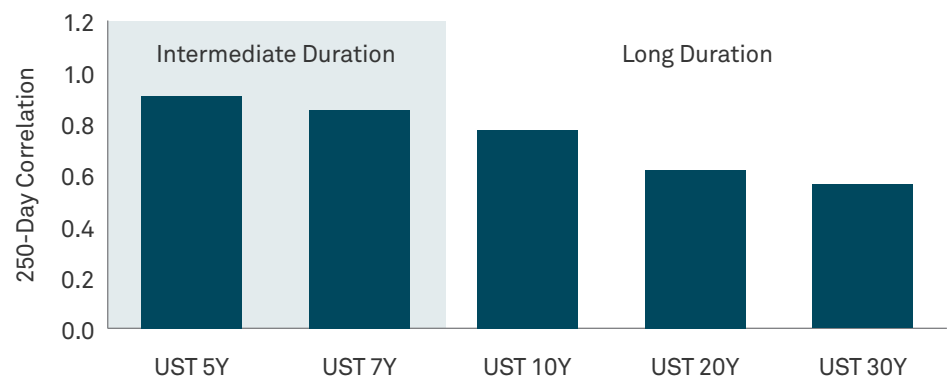


Sources: BNY Investment Institute, Bloomberg, Macrobond. Data as of 9/30/25. This estimates a hypothetical return and is for illustrative purposes only.

The “belly” effect

The intermediate section of the yield curve, often called the “belly,” strikes an appropriate balance between Fed policy correlation, income generation and risk. As the Fed lowers rates, the front end is exposed to reinvestment risk, while extending too far out can increase volatility. In this environment, positioning in the intermediate range, particularly in 5-year and 7-year bonds, may provide investors with an opportunity to lock in current yields while capturing the potential for price appreciation.

CORRELATION TO CHANGES IN UST 2-YEAR YIELDS (FED POLICY RATE PROXY)



Sources: BNY Investment Institute, Bloomberg, Macrobond. Data as of 9/30/25. UST = U.S. Treasury.

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This is an extract from [Checkpoints](#), a comprehensive monthly chartbook that provides insights into major themes affecting financial markets. For additional analysis, read the full [report](#).



About the BNY Investment Institute

Drawing upon the breadth and expertise of BNY Investments, the Investment Institute generates thoughtful insights on macroeconomic trends, investable markets and portfolio construction.

Convexity is the measure of the curvature in the relationship between bond prices and interest rates.

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to changes in interest rates.

Yield-to-worst is the lowest possible yield that can be received on a bond that fully operates within the terms of its contract, assuming the bond does not default entirely.

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