MEKETA

Short-term TIPS

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In this paper, we review the case for short-term Treasury Inflation Protected Securities (TIPS). We presume the reader is already familiar with the broad TIPS asset class. Therefore, we focus on the ways in which shorter duration TIPS differ from the overall TIPS market. Specifically, we focus on interest rate and inflation sensitivity.

We find that short-term TIPS can provide a purer hedge against inflation, especially unexpected inflation. Therefore, any investor who is concerned about surprise inflation should consider whether short-term TIPS might deserve a role in their portfolio.

Key takeaways

- Short-term TIPS exhibit lower duration than the broader TIPS market, making them more stable during rate-driven market volatility.
- Short-term TIPS offer a more direct hedge against unexpected inflation than market-duration TIPS, due to their lower sensitivity to interest rate movements and higher correlation to inflation.
- There is often a trade-off between inflation protection and yield. While short-term TIPS typically offer lower yields than their longer-dated counterparts, the relative opportunity cost is dependent on the yield curve environment.
- While less liquid than nominal Treasuries, short-term TIPS remain more liquid than most corporate bonds and are widely accessible through passive investment vehicles, making them an efficient tool for inflation-conscious portfolios.

Size of short-term TIPS market

The short-term TIPS market is generally defined as those TIPS issues with less than five years to maturity. By number of issues, it is rather limited, as there were 26 TIPS that met this definition as of June 2025. However, total issuance of TIPS by dollar amount is skewed to the short-term, with roughly 50% of outstanding TIPS issuance concentrated in maturities less than five years by market value (see Figure 1).

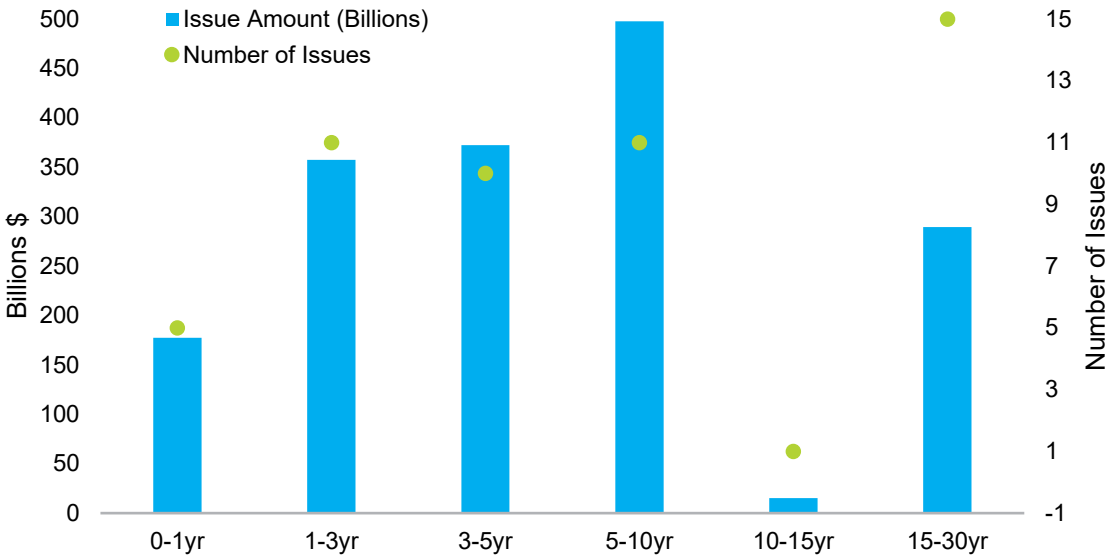

FIGURE 1
Size of TIPS Market by Years to Maturity

Source: Bloomberg data as of June 2025.

Interest rate sensitivity

Short-term TIPS, by definition, have a shorter duration than the broader TIPS market. The duration of a bond estimates how much the price of the bond will change due to movements in interest rates. One of the key benefits of shorter duration TIPS in this context is that they bear significantly less duration and are, therefore, less sensitive to rising interest rates. The short-term TIPS index has a duration less than half of the broader Bloomberg US TIPS index and the Bloomberg Aggregate Bond index (see Figure 2).

	Duration (Years)	Maturity (Years)	Yield to Maturity
Bloomberg US 1-5 Year TIPS	2.3	3.0	4.0%
Bloomberg US TIPS	5.4	7.2	4.3%
Bloomberg US Aggregate	6.1	8.4	4.7%

FIGURE 2
Duration, Maturity and Yield

Source: Bloomberg data as of June 2025. Note that the duration for TIPS cannot be precisely calculated as the exact size of future cash flows is unknown (since future inflation is unknown). Hence, duration is estimated based upon market expectations for future inflation. Modified Adjusted Duration is used for the Bloomberg Aggregate, and Modified Option-Adjusted Duration is used for Bloomberg US TIPS and Bloomberg 1-5 Year TIPS indices. Also, for TIPS, the yield to maturity quoted combines the real yield with the prevailing market expectation for inflation.

Shorter duration TIPS, as compared to the aggregate TIPS index, have historically offered lower correlations to the broad bond market (see Figure 3). This corroborates the thesis that short-term TIPS are less sensitive to the changes in interest rates that affect the broad bond market.

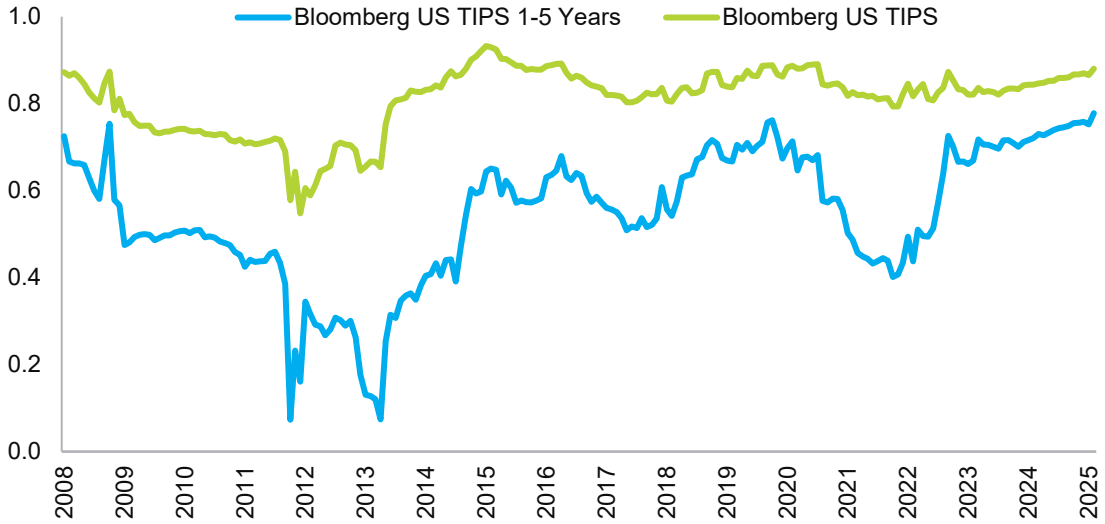

FIGURE 3
Rolling 3-Year Correlation vs. the Bloomberg Aggregate Index

Source: Meketa analysis based on Bloomberg data for 2005 through May 2025.

It is worth noting that the nature of a rising rate environment will impact TIPS in differing ways based on their duration. For example, if longer-term rates are rising faster than shorter-term rates (i.e., a rate rise accompanied by a steepening yield curve), longer-term TIPS will perform worse than short-term TIPS. However, in an environment where short-term rates rise faster than long-term rates, then short-term TIPS will share the pain.

Lower yield

The primary trade-off of short-term TIPS is that they typically offer a lower yield than longer-term TIPS, consistent with the term structure premium of nominal bonds. The amount of this trade-off (i.e., yield give-up) depends on the steepness of the yield curve. During a period with a fairly flat yield curve, the trade-off is minimal and hence the opportunity cost of holding short-term TIPS versus market duration TIPS is likewise small. But a steep yield curve provides a long-term return advantage to market duration TIPS over short-term TIPS.

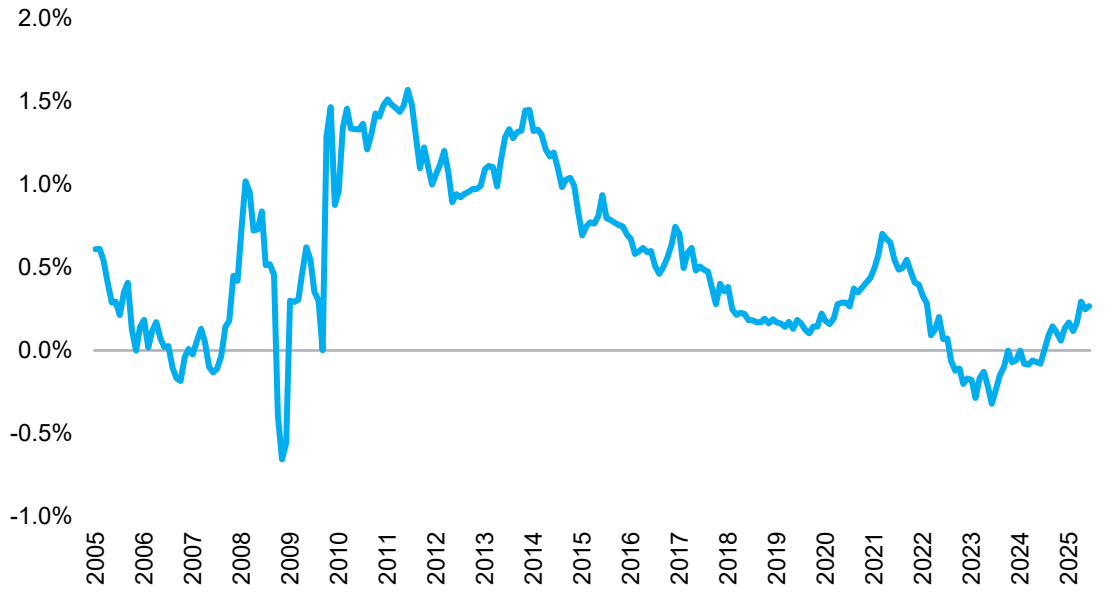

FIGURE 4
Historical Short-Term Yield Curve Steepness for TIPS

Source: Bloomberg data through June 2025. Steepness is calculated using historical yield for Bloomberg US TIPS index and Bloomberg 1-5 Year TIPS index.

Inflation protection

TIPS have exhibited positive correlations to unexpected (i.e., "surprise") inflation historically, unlike nominal bonds, which have been negatively correlated on average to both unexpected and realized inflation. Figure 5 illustrates that shorter duration TIPS are more highly correlated with inflation, both to surprise inflation as well as realized inflation.[1]

[1] Surprise Inflation is defined as the difference between the rolling 12-month inflation (CPI-U) value and the rolling 12-month inflation value one year prior.

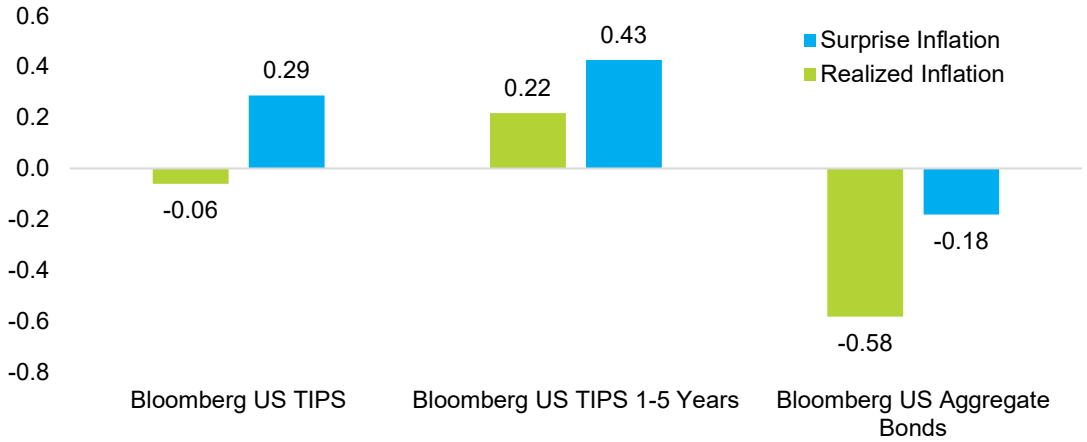

FIGURE 5
Correlation with Inflation

Source: Meketa analysis of Bloomberg data for the period from 2005 through May 2025.

The fact that short-term TIPS are less sensitive to changes in interest rates but more sensitive to changes in inflation is not a coincidence. Rate changes are one of the major drivers of TIPS returns, along with inflation. Short-term TIPS, which minimize exposure to interest rates, effectively leave inflation as the primary driver of their performance. As a result, short-term TIPS generally can provide a greater hedge against short-term inflation volatility than longer-duration TIPS.

The components that drive the changes in the consumer price index (CPI) have also been found to impact TIPS along the duration spectrum differently. TIPS returns, by definition, are a product of movement in the CPI. Using a 1-Year TIPS as an example, the value change of the security is determined in part by the remaining 12 times the CPI is published until maturity, whereas a 10-Year TIPS security would be based on the remaining 120 times the CPI is published. An investor looking at shorter duration TIPS should therefore be more concerned with the short-term forecasts for each component of the CPI, including, but not limited to, the most volatile components, such as energy (see Figure 6).

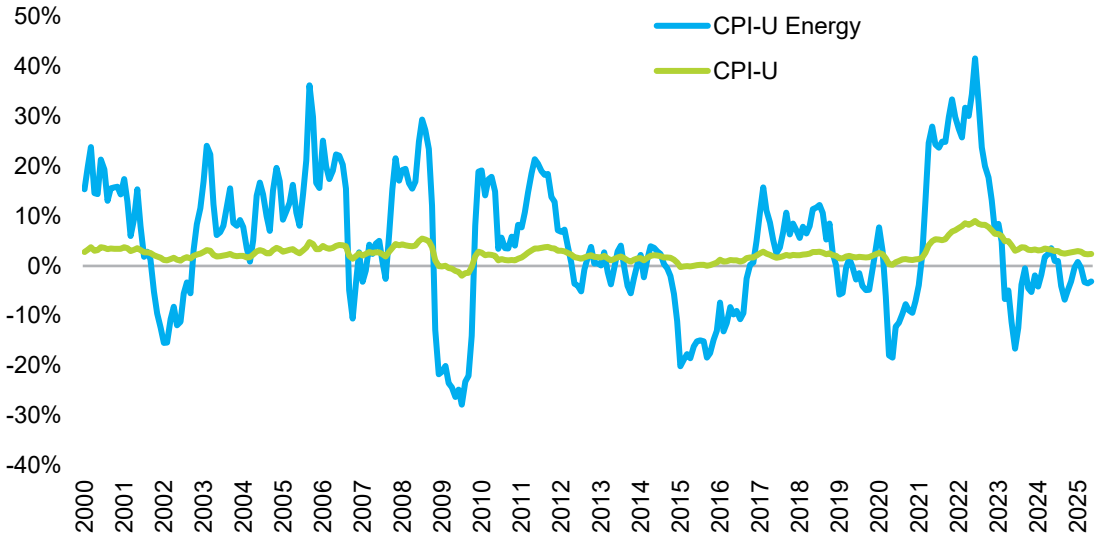

FIGURE 6
Year-over-Year Change in Inflation vs. Energy Prices

Source: Meketa analysis based on annual percentage change data from FRED for the period from 2000 through May 2025. Inflation is proxied by the CPI-U, and Energy is proxied by the special aggregation published as part of the CPI-U, which includes utility natural gas, fuel oil, electricity and gasoline.

For example, energy has comprised approximately 8% of the CPI over the past 20 years. Yet in a single year, energy has contributed up to 65% of the movement in the CPI, peaking in the fall of 2010 (see Figure 7). However, over longer periods, energy has contributed an average of 27% to the volatility of the CPI.

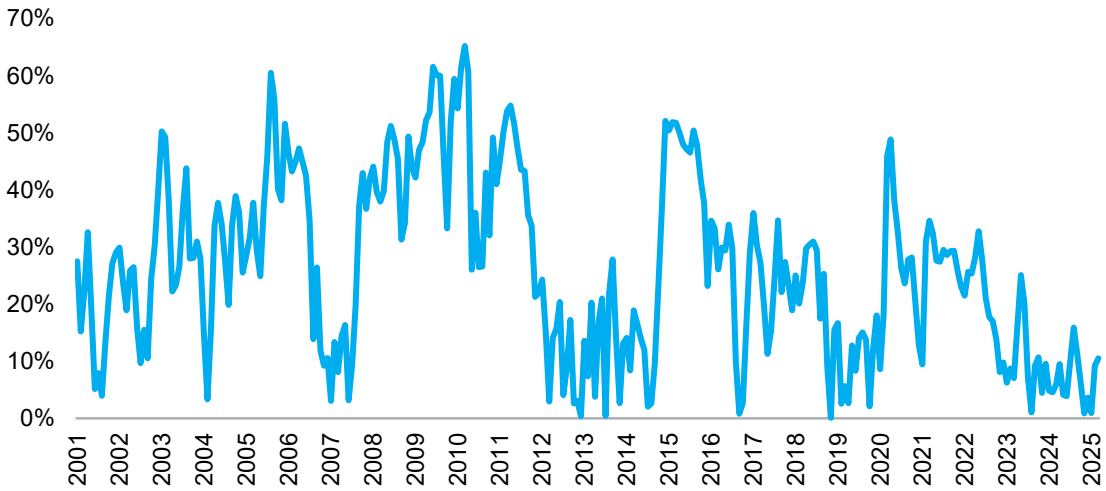

FIGURE 7
Contribution of Energy sector to Changes in CPI

Source: Meketa analysis based on relative importance data from FRED and the CPI for the period 2000 through April 2025. Energy is proxied by the special aggregation published as part of the CPI-U, which includes utility natural gas, fuel oil, electricity and gasoline.

Shorter-term TIPS have historically exhibited a slightly higher correlation to headline and core CPI than the broader TIPS market (see Figure 8). Moreover, shorter-term TIPS have exhibited a higher correlation to headline CPI and the volatile energy sector than to core CPI. This highlights their greater sensitivity to the more volatile components of inflation.

	Correlation to Headline CPI	Correlation to Core CPI	Correlation to Energy
1-5 Year TIPS	0.37	0.00	0.42
US TIPS	0.02	-0.08	0.04

FIGURE 8
Quarterly Return Correlation to CPI Components (1/2005-12/2024)

Source: Meketa analysis based on data from Bloomberg and FRED for the period from January 2005 through December 2024. Headline CPI is defined as all components of the CPI-U. "Core CPI" is defined as headline CPI-U less food and energy. Energy is proxied by the special aggregation published as part of the CPI-U, which includes utility natural gas, fuel oil, electricity and gasoline. Represents correlations for monthly data.

Deflation floor

One aspect of TIPS that is generally overlooked is the embedded floor offered by the Treasury that guarantees the payment of principal at maturity. When a TIPS security is issued, it is offered to the market at an "index ratio" of 1.0, which translates to the par value of the security at the time of issuance. The "index ratio" is used in the calculation of the inflation-adjusted principal, and this ratio will increase, or decrease, by the percentage change in the CPI over the life of the security. Once the TIPS security matures, the government guarantees payment at maturity of principal that corresponds to the greater of the current index ratio or the original par value. Hence, there is deflation protection embedded in TIPS, and this protection is more likely to be valuable for recently issued short-term TIPS given that past deflationary experiences have tended to be fairly brief in length.[2]

[2] Note that this "floor" may only apply to recently issued TIPS of short maturity. It is quite likely that TIPS with an original issuance of five years or more have seen their index ratio grow sufficiently with inflation that it would take a very large deflationary spike for the floor to kick in.

Historical evidence

Figure 9 illustrates how TIPS would have performed during various inflationary scenarios. Historically, short-term TIPS have performed better than market duration TIPS during the vast majority of high inflation periods. Short-term TIPS even produced positive returns in periods of slightly higher than expected inflation. Historically, when inflation has been higher, rates have moved upward, causing a drag on performance for longer duration assets.

Scenario	Short-Term TIPS	TIPS
Inflation meaningfully higher than expected	-0.69%	-3.10%
Inflation slightly higher than expected	0.07%	-0.41%
Brief, extreme inflation spike	-0.45%	-0.73%
Extended, extreme inflation spike	-0.74%	-0.56%
Low Growth and High Inflation	-1.60%	-3.84%
High Growth and High Inflation	1.14%	-0.01%

FIGURE 9
TIPS Performance during Inflationary Scenarios

Source: Meketa inflation scenario analysis based on Bloomberg Aggregate, Bloomberg US TIPS, Bloomberg US TIPS 1-5 Year. TIPS and short-term TIPS are backdated, prior to their inception, using a Meketa simulated TIPS model. Note: One traditional difficulty in analyzing TIPS returns is their relatively short history as the first TIPS was issued in 1997. To compensate for this drawback, the results use simulated TIPS returns based on an internal Meketa Investment Group model that is built upon industry and academic research.

Figure 10 shows performance during five historical scenarios. The first three (i.e., most recent) are rising interest rate scenarios of different magnitudes and length. Unsurprisingly, short-term TIPS outperformed market duration TIPS during each scenario. The last two are inflationary scenarios, again of different magnitude and length. The 1973-74 period was accompanied by a severe bear market, and longer duration bonds outperformed in this period, though short-term TIPS did produce positive absolute returns. The 1980 period saw a more modest downturn for equities, and short-term TIPS outperformed.

Scenario	Investment Grade Bonds	TIPS	Short-Term TIPS
Post-COVID Rate Hikes (Jan 2022 - Oct 2023)	-15.4%	-13.2%	-2.2%
Taper Tantrum (May - Aug 2013)	-3.7%	-8.5%	-2.1%
Rate Spike (1994 Calendar Year)	-2.9%	-7.5%	-3.8%
Volcker Recession (Jan - Mar 1980)	-8.7%	-7.8%	-3.9%
Stagflation (Jan 1973 - Sep 1974)	7.9%	4.3%	2.3%

FIGURE 10
Historical Scenario Analysis

Source: Meketa analysis based on Bloomberg data for the period from 1997 through May 2025.

Volatility

As illustrated in Figure 11, shorter duration TIPS have typically experienced less volatility over time compared to both the Bloomberg US Aggregate Index and the broader Bloomberg US TIPS Index. This is to be expected given the lower sensitivity to changes in interest rates.

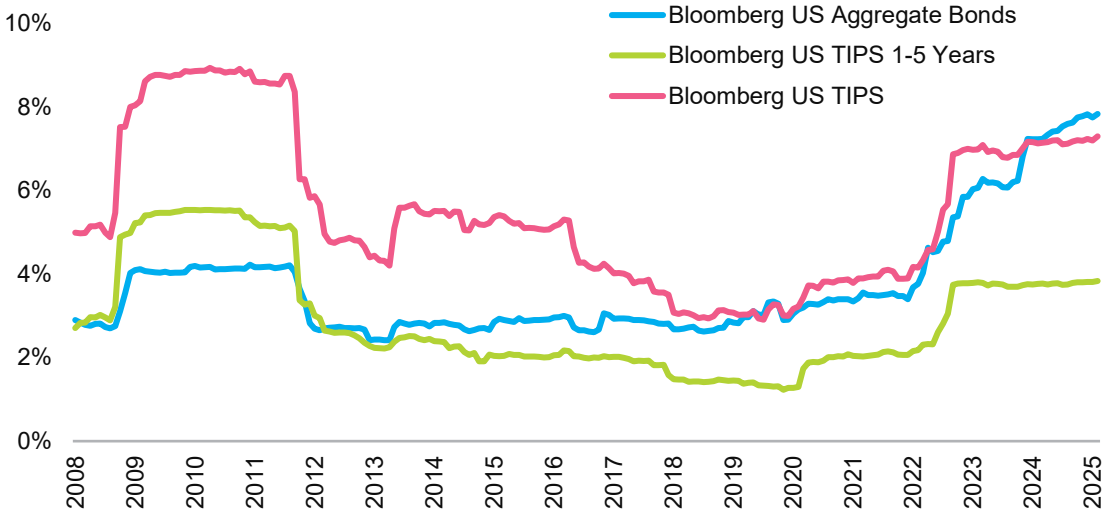

FIGURE 11
Three-year Rolling Standard Deviation

Source: Meketa analysis based on Bloomberg data for the period from 1997 through May 2025.

Market liquidity

As of June 2025, the market value of the 53 outstanding TIPS issues was roughly $1.71 trillion, representing about 6% of the total outstanding issuance of the US Treasury.[3] TIPS are generally auctioned four times per year.[4] The TIPS market is not as liquid as that for nominal Treasury bonds. This is due to several factors, including the smaller size of the TIPS market, the fact that TIPS constitute a non benchmark investment for many bond managers, and TIPS' attractiveness as a buy and-hold investment. Consequently, it is slightly more expensive to trade TIPS than it is to trade nominal Treasuries. On the other hand, the TIPS market is more liquid than that of most investment grade corporate bonds.

The futures market provides a sense for the difference in liquidity and pricing. As of July 2025, the trading spread was approximately 0.12% of principal value for overall TIPS versus approximately 0.06% for Treasuries.[5] Therefore, for every trade, Treasuries have a one-time 0.06% advantage on average. Of course, it is possible that during periods of heightened volatility the spreads for TIPS could widen just as they do for other securities. This happened during the Global Financial Crisis, when TIPS spreads grew to as large as 14/32nds as well as during the early days of pandemic uncertainty in March 2020, when some TIPS spreads grew to over 3%.[6]

Implementation

Passive management is widely available for TIPS, including short-term TIPS. The large purveyors of passive strategies generally offer off-the-shelf passive TIPS strategies that target the shorter end of the curve (e.g., 0-5 years or 1-5 years). This can include mutual funds and ETFs as well as institutional commingled fund structures. Short-term TIPS can be implemented in a separate account format as well, but the funding requirement for a separate account generally precludes smaller investors.

The fees for an institutional off-the-shelf passive short duration TIPS strategy are expected to be in the low single digits, typically around two to five basis points. Larger investors may be able to negotiate even lower fees or other favorable terms. Note that large institutional investors who have a staff capable of internal fixed income management may be able to run a short-term TIPS portfolio effectively with a passive or quasi-index-like approach at an even lower net cost.

[3] Source: Bloomberg as of June 2025, and US Department of the Treasury "Monthly Statement of the Public Debt of the United States", June 30, 2025. As of June 2025, the Federal Reserve owned $313.8 billion dollars of TIPS, representing about 18.35% of the market value of outstanding TIPS (source: FRED).

[4] For more information on recent and future auctions, see https://www.treasurydirect.gov/instit/marketables/tips/tips.htm.

[5] Source: The Wall Street Journal MarketData, as of July 09, 2025.

[6] Source: Bloomberg, bid-ask spread of 30-Year TIPS issuance with expiration of 2032.

Conclusion

TIPS have become an established asset class in many institutional investors' portfolios over the past quarter century. Some of those investors have looked to short-term TIPS given their unique profile of low sensitivity to interest rates and high sensitivity to inflation while benefiting from the full faith and backing of the US Treasury. While short-term TIPS are not as liquid as nominal Treasuries, they are still far more liquid than the riskier assets that tend to comprise the majority of many investors' portfolios.

We find that short-term TIPS can provide a purer hedge against inflation, especially unexpected inflation. This is partly because short-term TIPS have less sensitivity to changes in interest rates than do intermediate and long duration TIPS. We also find that short-term TIPS have higher correlations to the more volatile aspects of the CPI. The primary trade-off is that short-term TIPS typically offer a lower yield, and the amount of this trade-off depends on the steepness of the yield curve. Therefore, short-term TIPS might seem particularly attractive for an investor who is concerned about rising interest rates and increases in inflation.

Appendix

Benefits	Disadvantages
Less exposure to interest-rate risk	Long-term return potential is lower
Better inflation hedge than traditional TIPS index	Investors typically receive lower yield
Less volatility than core, longer duration TIPS	Would likely underperform other high quality bonds during a market crisis.

FIGURE 12
Benefits and Disadvantages of Short-term TIPS

Source: Meketa Investment Group, 2025.

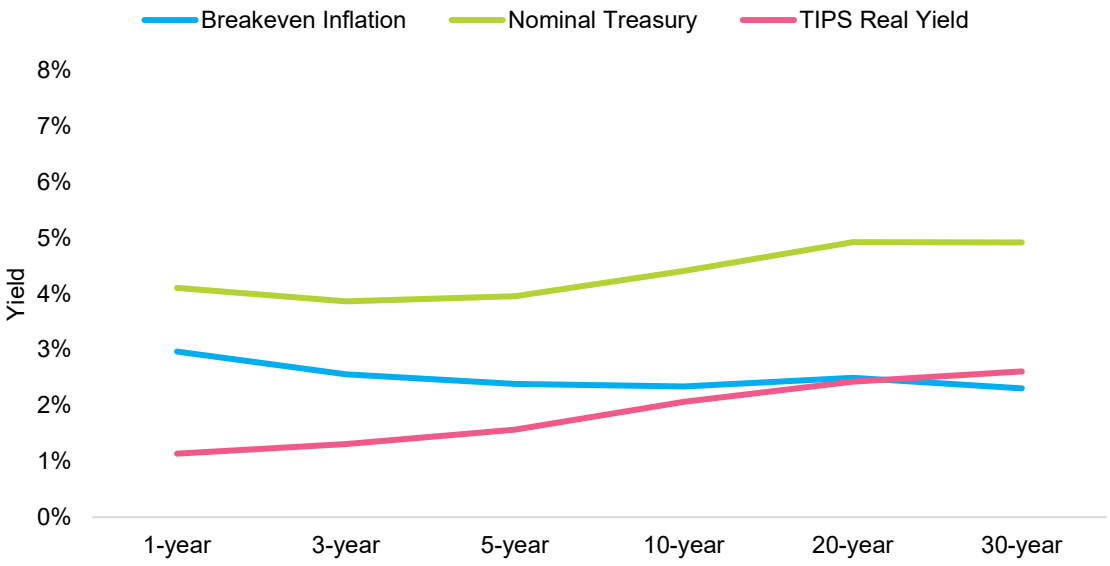

FIGURE 13
TIPS and Nominal Treasury Yield Curve & TIPS Real Yield as of May 2025

Source: FRED and US Treasury TBI Treasury Curve Breakeven Rates.

Bloomberg TIPS: Changes In Interest Rates (bps)

	-500	-400	-300	-200	-100	-50	0	50	100	200	300	400	500
8.0%	46.4%	38.4%	31.0%	24.2%	18.0%	15.1%	12.3%	9.7%	7.2%	2.6%	-1.3%	-4.7%	-7.6%
6.0%	44.4%	36.4%	29.0%	22.2%	16.0%	13.1%	10.3%	7.7%	5.2%	0.6%	-3.3%	-6.7%	-9.6%
4.0%	42.4%	34.4%	27.0%	20.2%	14.0%	11.1%	8.3%	5.7%	3.2%	-1.4%	-5.3%	-8.7%	-11.6%
2.0%	40.4%	32.4%	25.0%	18.2%	12.0%	9.1%	6.3%	3.7%	1.2%	-3.4%	-7.3%	-10.7%	-13.6%
0.0%	38.4%	30.4%	23.0%	16.2%	10.0%	7.1%	4.3%	1.7%	-0.8%	-5.4%	-9.3%	-12.7%	-15.6%

Bloomberg TIPS 1-5 Year: Changes In Interest Rates (bps)

	-500	-400	-300	-200	-100	-50	0	50	100	200	300	400	500
8.0%	24.2%	21.6%	19.1%	16.7%	14.3%	13.2%	12.1%	10.9%	9.8%	7.7%	5.6%	3.6%	1.7%
6.0%	22.2%	19.6%	17.1%	14.7%	12.3%	11.2%	10.1%	8.9%	7.8%	5.7%	3.6%	1.6%	-0.3%
4.0%	20.2%	17.6%	15.1%	12.7%	10.3%	9.2%	8.1%	6.9%	5.8%	3.7%	1.6%	-0.4%	-2.4%
2.0%	18.2%	15.6%	13.1%	10.7%	8.3%	7.2%	6.1%	4.9%	3.8%	1.7%	-0.4%	-2.4%	-4.4%
0.0%	16.2%	13.6%	11.1%	8.7%	6.3%	5.2%	4.1%	2.9%	1.8%	-0.3%	-2.4%	-4.4%	-6.4%

FIGURE 14
Impact of Changes in Rates of Interest and Inflation on TIPS

Source: Meketa analysis of data from Bloomberg, as of June 2025.

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