

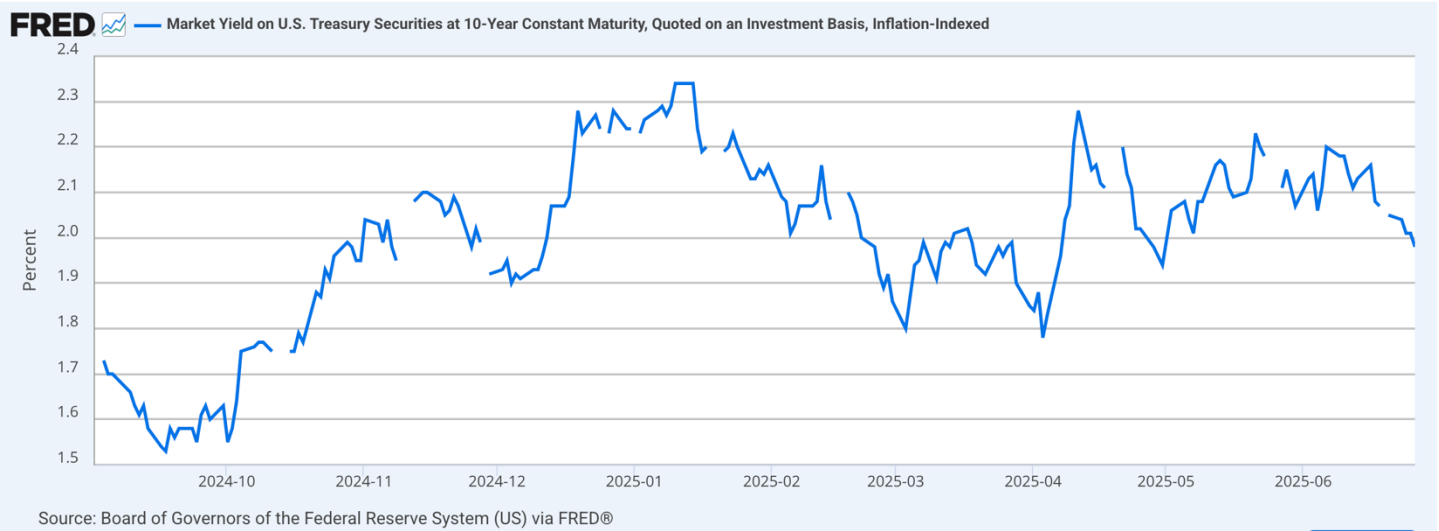
Flash: Have Markets Given Up on Rate Cuts?

June 23rd, 2025

Highlights

Markets entered 2024 bracing for aggressive rate cuts, nearly seven were priced at the peak. But fast forward to mid-2025, and that optimism has been largely unwound. Sticky inflation, resilient jobs data, and cautious Fed communication have reshaped the forward curve.

Figure 1: Surging Real Yields Reflect Sticky Inflation and Fed Reluctance



Real yields have climbed significantly since Q3 2024, peaking above 2.3% in early 2025, a clear signal of tighter real financing conditions despite sticky inflation. This has added sustained pressure on long-duration assets.

The Fed Futures Now

As of late June 2025, the Fed Funds futures curve reflects:

- **Just one cut** priced by year-end
- Terminal rate expectations for **2026 still near 4%–4.25%**
- The first cut likely **pushed into Q4 2025**, or even later

Fed Funds Futures	Jan 2025	Jun 2025
Dec 2025 Target	~4.35%	~4.80%
Dec 2026 Target	~3.80%	~4.20%

The path to easing has narrowed. The “higher for longer” scenario is no longer a fringe view, it is the base case.

Portfolio Implications

1. Duration Still Faces Pressure

Despite some relief rallies, long-duration Treasuries remain vulnerable. Real yields have firmed. The bond market is no longer a reliable hedge to equity drawdowns.

◆ **Positioning:** Stay underweight duration. Favor **short-dated credit** or **floating-rate notes** to capture yield with lower sensitivity.

2. Equities: Resilient, But Fragile

Mega-cap tech has held firm, thanks to AI-driven earnings upgrades. But small caps and rate-sensitive sectors (utilities, REITs) lag. Investors are increasingly **concentrated in a few winners**, increasing fragility.

◆ **Positioning:** Favor **high-quality large caps**, defensives with pricing power, and low beta exposure.

Tactical Trade Ideas

Short TLT / Long HYG – A simple relative value bet fading long-duration

Buy SOFR call spreads (Sep–Dec 2025) – If you believe rate cuts return after a weak Q3 print

Long USDJPY – A carry trade supported by policy divergence

Final Takeaway

The Fed has not cut because it has not « *needed to* », yet. But late-cycle risks are mounting, from rising debt service costs to margin pressures. While the “soft landing” narrative still drives markets, a shift could come fast and hard.

Now may be the time to tighten risk, raise optionality, and prepare for both outcomes: *cut delayed* and *cut forced*.

Read More On the Topic

[Why Bond Markets Are Struggling to Hedge Again](#)

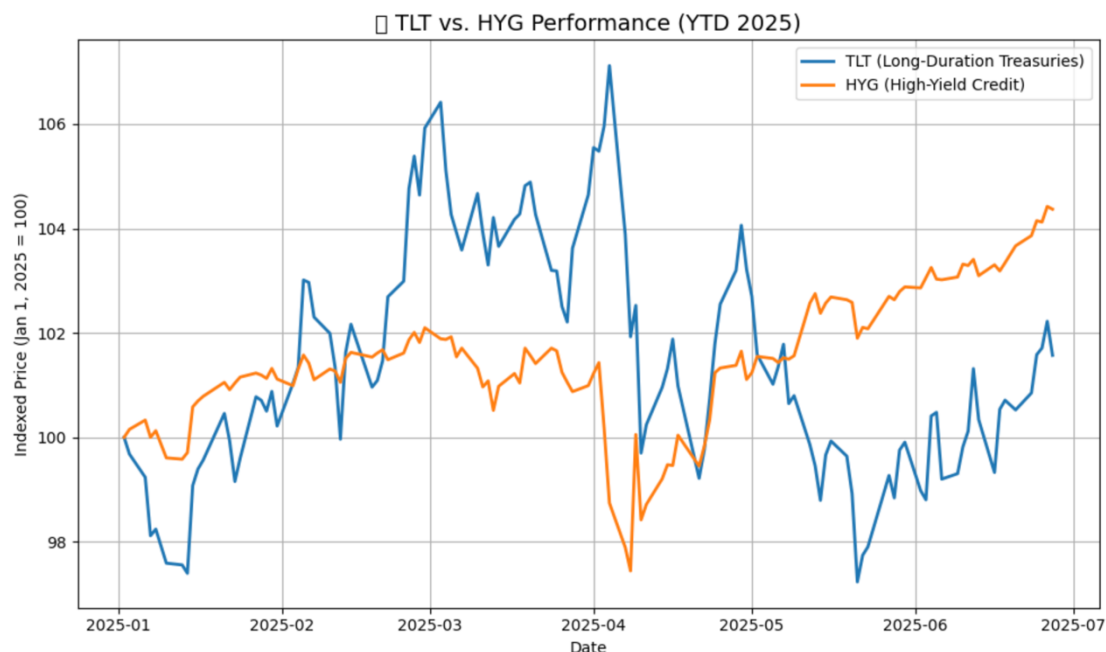
[From Rate Cuts to Credit Spreads: The Next Tactical Rotation](#)

[What Sticky Inflation Means for Forward Guidance](#)

[Global Central Banks: Who Moves First in 2025?](#)

[US Dollar Strength: Headwinds for EM and Commodities](#)

Figure 3: TLT vs. HYG Performance (YTD 2025)



While high-yield credit (**HYG**) has trended higher, long-duration Treasuries (**TLT**) have lagged due to rising real yields and rate volatility. This divergence supports underweighting duration and favoring credit carry trades in the current macro regime.

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