Opinion
John Authers

Been Hedging Around the Pivot? Don't Stop Now

Whatever the recessionary indicators may show, there are strong reasons against expecting an implied flurry of Fed rate cuts.

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By John Authers
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Something Must Give

It can't carry on like this much longer. We now know that Corporate America is in much better shape than many had thought, largely because the American consumer is also far more robust than many believed. The labor market remains obdurately healthy. And yet the confidence with which bond markets are now betting that the Federal Reserve must "pivot" (start cutting rates) and do so imminently has never been greater. This divergence has been present and growing for a while, but some resolution must now be close.

That's because fed funds futures now price a likelihood that over the next six meetings of the Federal Open Market Committee, from now until January, we'll see the equivalent of five 25-basis-point cuts to the rate (and plenty of other, more liquid markets are making much the same implicit prediction). Last week's rate hike from the Fed, combined with a dip in expectations for next January, brought the gap to its widest in this cycle: