

MARKET INSIGHT

Rate Cuts Are Off the Table. The Market Didn't Get the Memo.

By Quantumvest

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10-YEAR TREASURY YIELD

4.47%

▲ from 4.36% low (Mon.)

JUNE FOMC DOT PLOT (2026)

+1 hike

vs. -2 cuts penciled in March

S&P 500 / NASDAQ, Q2

Best quarter since 2020

+14.9% / +21.4%

Data through market close, Friday, June 26, 2026. Sources: Federal Reserve, CNBC, TradingEconomics.

What Moved Markets

The past two weeks were defined less by any single headline than by a widening gap between what the Federal Reserve signaled and how risk assets responded to it. At the June 17 FOMC meeting, Chair Kevin Warsh held the policy rate at 3.50–3.75% — but the accompanying dot plot flipped from the two rate cuts penciled in as recently as March to a median projection of one additional hike by year-end. The Fed's updated forecasts told a consistent story: year-end PCE inflation was revised up to 3.6%, while 2026 GDP growth was trimmed to 2.2%. Treasury yields surged on the news as the market repriced away its easing bets, and Chair Warsh has continued to reinforce the hawkish tone since, telling reporters this past week that “prices are too high” while separately pressing ahead with an aggressive reduction of the Fed's balance sheet.

Equities barely blinked. The S&P 500 and Nasdaq each closed out their best quarter since 2020, and the Dow notched its best quarterly gain since 2022, even as the 10-year Treasury yield climbed back above 4.47% — up more than a full point from where it stood at the start of the Fed's tightening bias reversal in late January. Minneapolis Fed President Neel Kashkari added to the hawkish chorus Friday, explicitly backing a rate increase by year-end. Working in the other direction, oil prices fell back toward pre-conflict levels as indirect U.S.-Iran talks showed signs of progress, taking some pressure off headline inflation even as core price data stayed sticky.

Quantumvest's Interpretation

We think markets are underpricing the significance of the Fed's pivot. This is not merely a “higher for longer” restatement — it is a genuine reversal, from a committee that expected to be cutting by now to one that has a hike back on the table, delivered by a chair who has been explicit that shrinking the balance sheet, not the funds rate, is his primary tool of choice. Equity markets have shrugged this off for two reasonable reasons: falling energy prices are doing some of the Fed's disinflation work for it, and corporate earnings - particularly the outsized guidance and margin strength coming out of technology and industrials — continue to give investors a growth offset to higher discount rates.

But those two supports are conditional, not structural. Oil's retreat depends on a Middle East de-escalation that remains a diplomatic process, not a settled fact, and Chair Warsh's balance-sheet campaign is, by his own description, a form of quantitative tightening that drains market liquidity independent of where the policy rate sits. Our base case is not a policy error severe enough to derail the cycle, but we do expect continued two-way volatility in long-duration assets as the market works out how much term premium a genuinely more hawkish, more balance-sheet-focused Fed deserves — and equity valuations, which have re-rated higher through the first half largely on the assumption that rate relief was coming, are more exposed to that repricing than the market's calm first reaction suggests.

The Fed didn't just pause — it took the rate-cut off-ramp away. Markets are pricing the pause. They are not yet pricing the off-ramp's absence.

Portfolio Implications

- **Fixed income:** We continue to favor below-benchmark duration in core fixed income allocations. With the Fed's own dot plot now pointing toward a hike rather than a cut and the balance sheet actively shrinking, we see more risk of yields grinding higher than falling meaningfully from here, and we would rather underweight duration risk than chase current levels.
- **Credit over duration:** Investment-grade and high-yield corporate bonds continue to offer attractive carry with spreads that have not meaningfully widened; we would use any Fed-driven rate volatility to add to quality credit rather than extend duration to capture yield.
- **Equities — stay invested, get more selective:** We are not reducing equity exposure on this data alone, but we are watching valuation-sensitive, long-duration growth names most closely, since they are the segment of the market most reliant on the rate-cut assumption the Fed just walked back.
- **Energy-sensitive cyclicals:** Falling oil and easing shipping disruption through the Strait of Hormuz are genuine positives for margin-sensitive cyclicals and transports; we would rather add here than in segments still pricing a dovish Fed that may not show up this year.
- **Tail-risk hedges:** Given the gap between a resilient market and a genuinely more hawkish Fed, modest hedges via short-duration Treasuries or optionality on rate-sensitive equity baskets remain a reasonable, low-cost form of portfolio insurance heading into the second half.

We will revisit this view in two weeks, with particular attention to how durably oil prices hold their retreat and whether Chair Warsh's balance-sheet rhetoric translates into a visible acceleration of runoff in the weekly H.4.1 data.

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