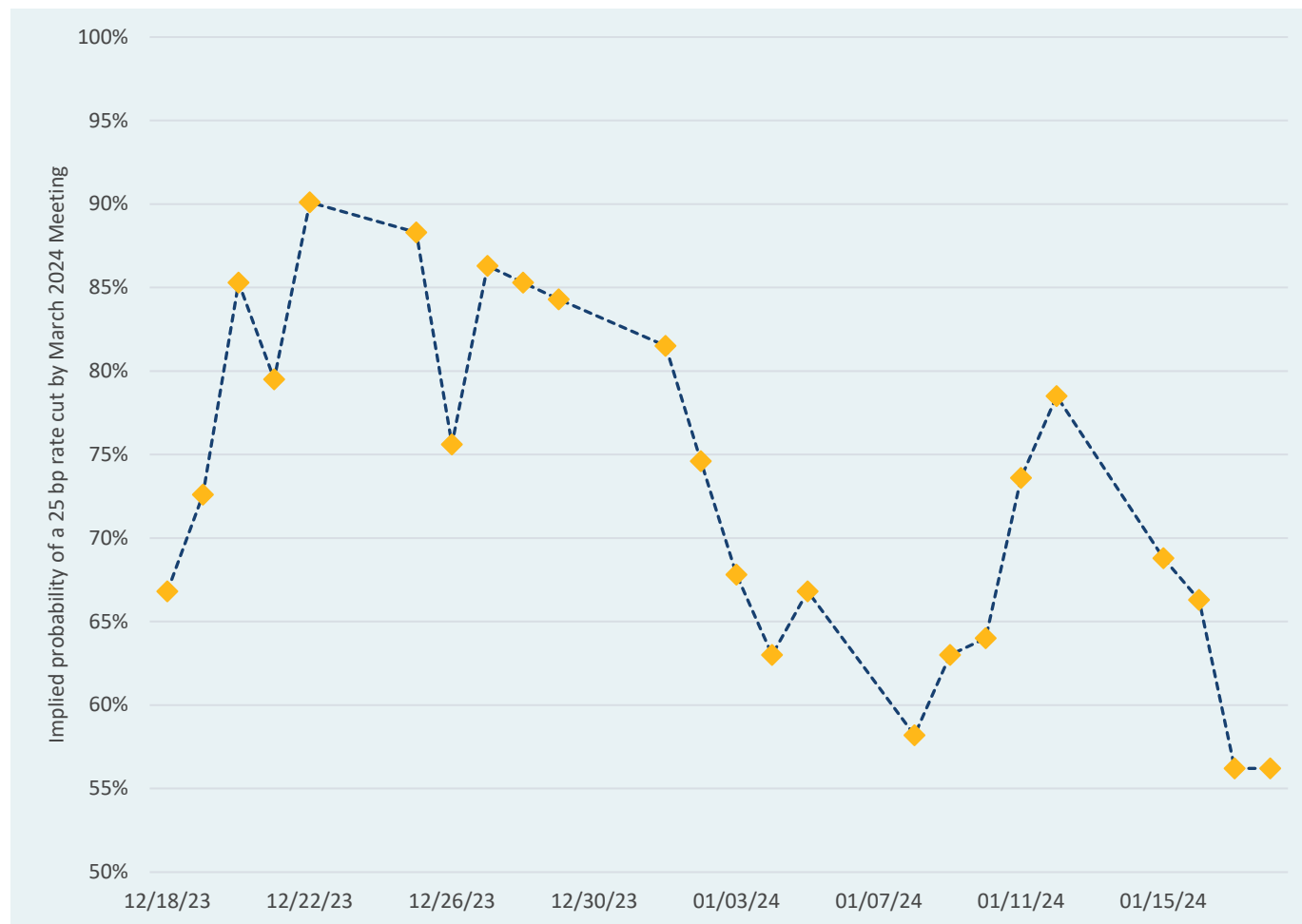


Verus Market Note

Market-implied rate cut expectations pushed further out

Markets have tempered expectations around rate cuts over the past weeks, evident from falling market-implied rate cut probabilities. In late December, Fed Fund Futures implied probabilities saw close to a **90%** chance for a 25 bp rate cut by the FOMC's March meeting. Probabilities have fallen to around **50%**. The change in expectations has also been reflected in rate markets, as U.S. yields have moved upward across the curve.

Changing expectations have likely been impacted by metrics pointing towards strength in domestic consumption and the broader labor market. At the same time, inflation across both headline and core sits in the 3% to 4% range, still above the Federal Reserve's mandated target of 2%. Without signs of material economic weakness, Fed officials may see less justification for quick rate cuts.



Source: Bloomberg, as of 1/18/24