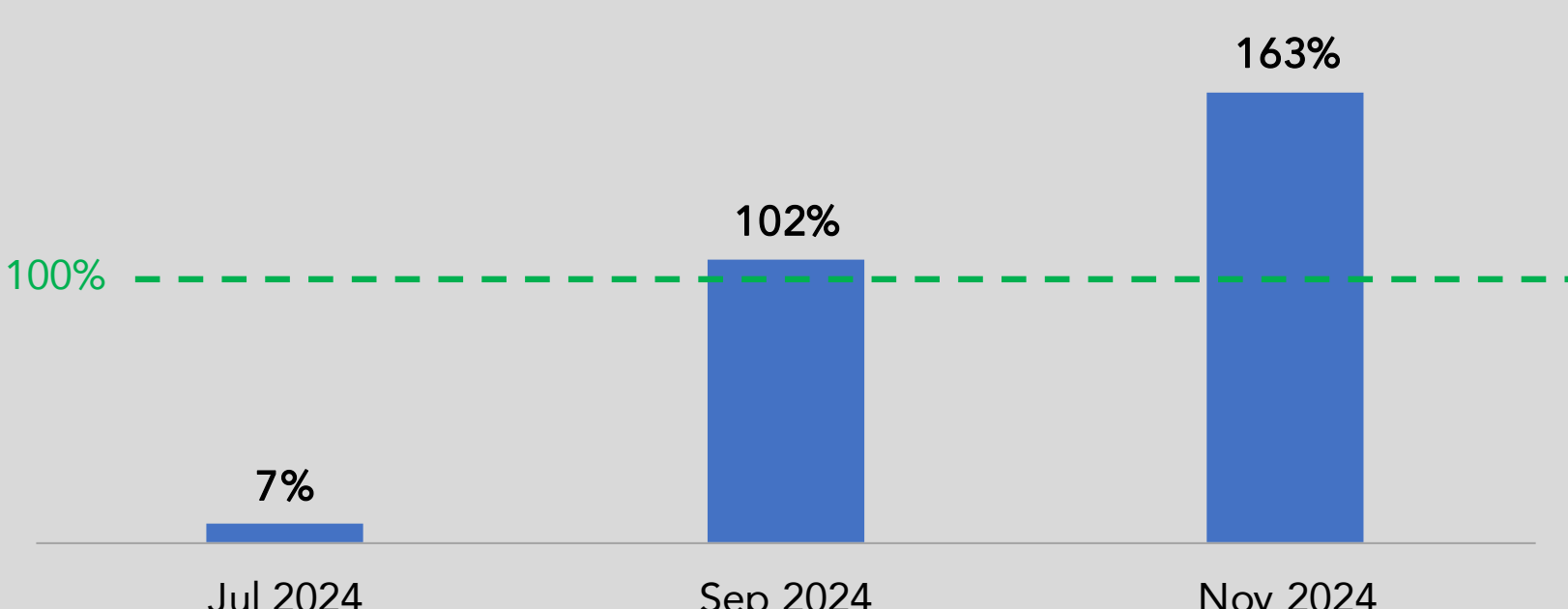


Chart of the Day



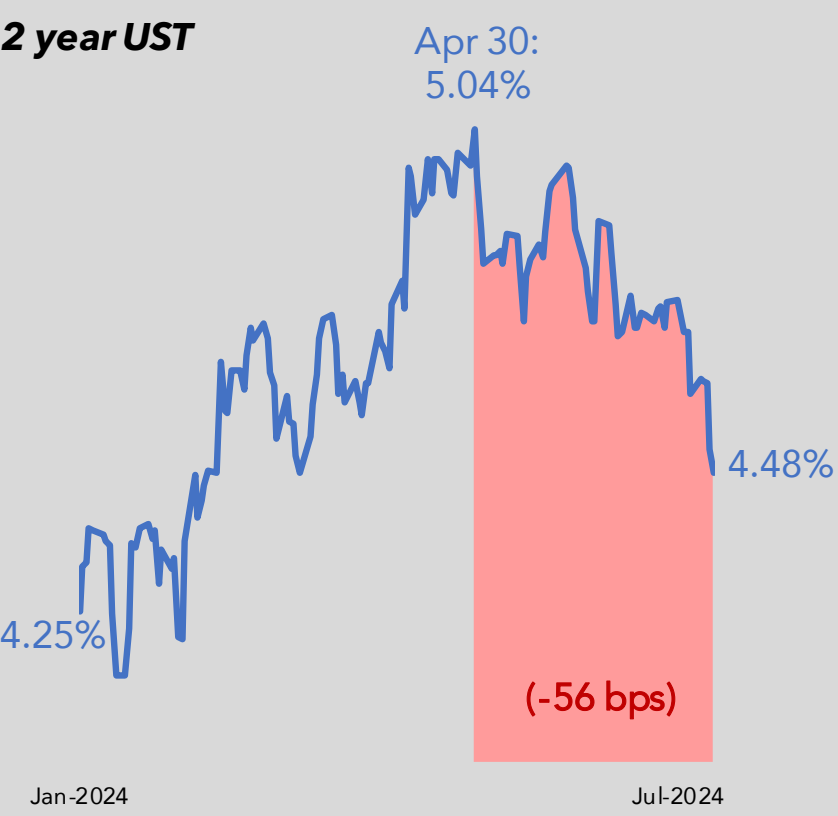
Over the past week, softer than anticipated US labor and inflation reports for June have reinforced the narrative of a decelerating US economy. Markets are now pricing in more than 100% probability that the Fed easing cycle will begin in mid-September, six weeks ahead of the US election.

Market implied probability of 25 bps rate cut by the upcoming FOMC meetings

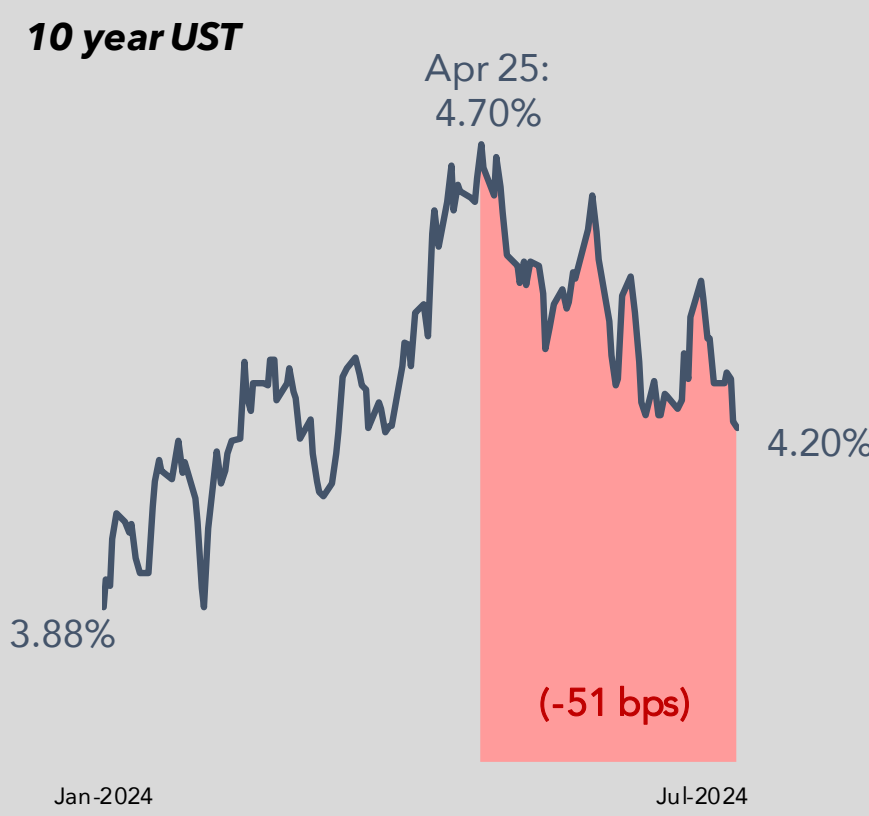


A series of "sticky" US inflation reports in Q1 entailed a mix of "seasonality" and "noise" that masked an underlying disinflation trend that is clearly underway. Since 2024 UST yields peaked in late April, a bull steepening of the UST curve has begun with shorter dated yields moving lower more rapidly than longer dated bonds in anticipation of Fed interest rate cuts.

2 year UST

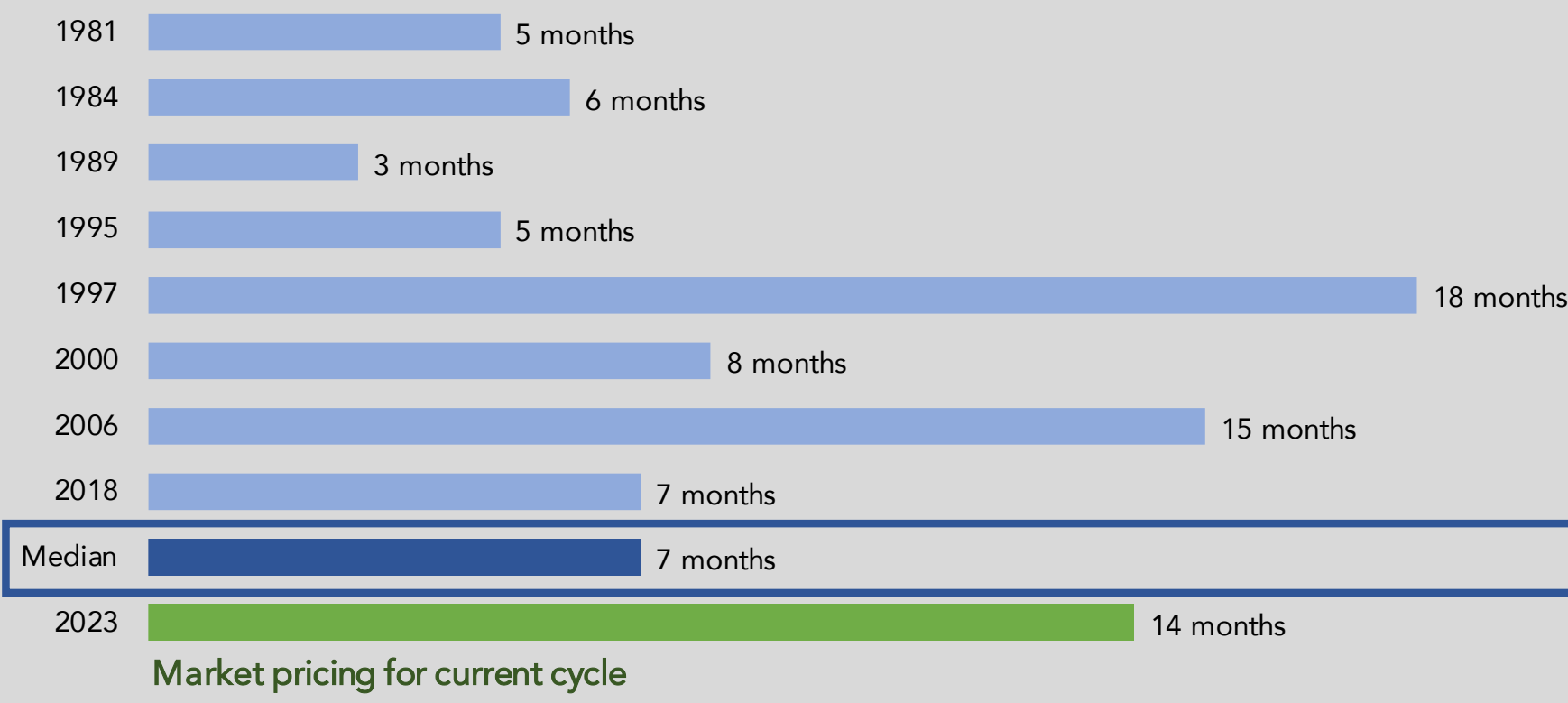


10 year UST



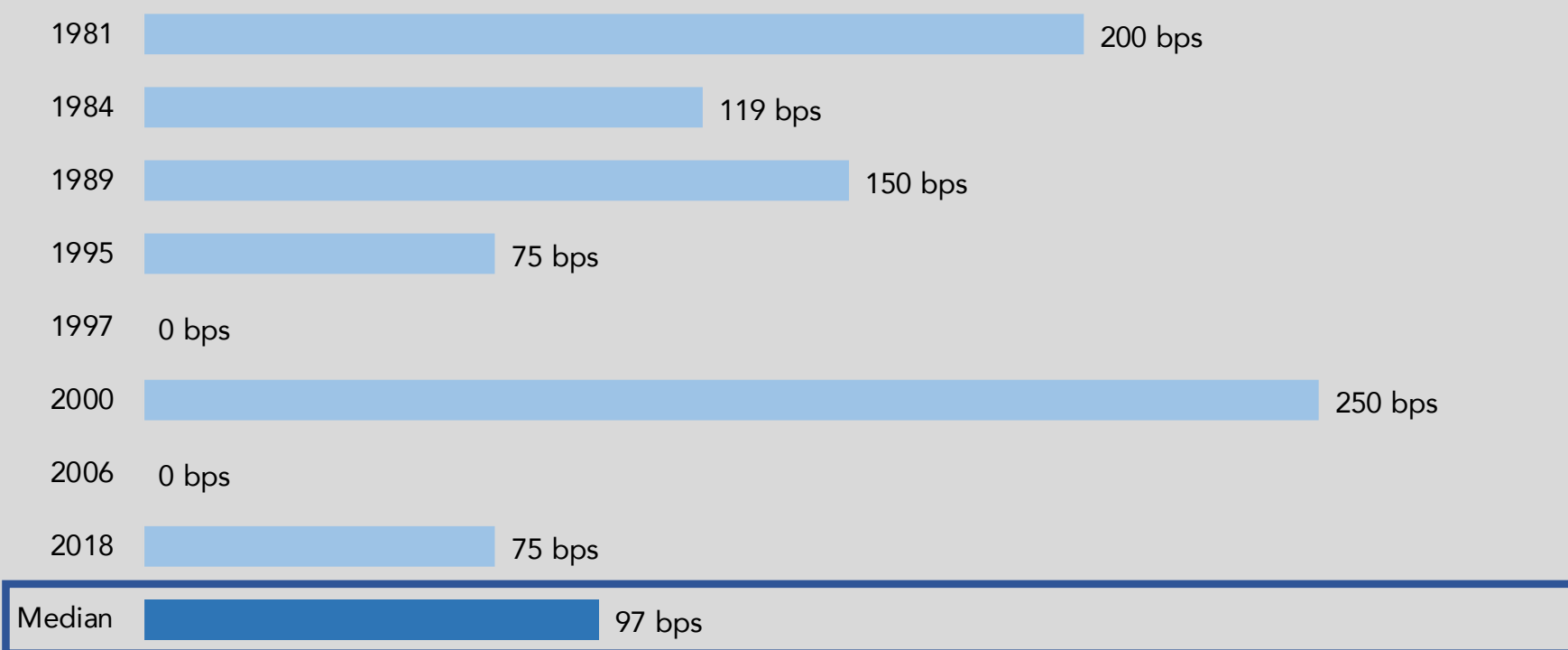
Looking at eight easing cycles since 1980, there has typically been about a seven month gap between the last Fed rate hike and the first interest rate cut, with a fair amount of variability around that median calculation. Markets are currently pricing a 14 month time period between last hike in July 2023 and first cut expected in September 2024, a longer period than average due in large part to extraordinary COVID stimulus, structurally tight labor markets and a less rate sensitive US economy.

Time between last rate hike and first rate cut



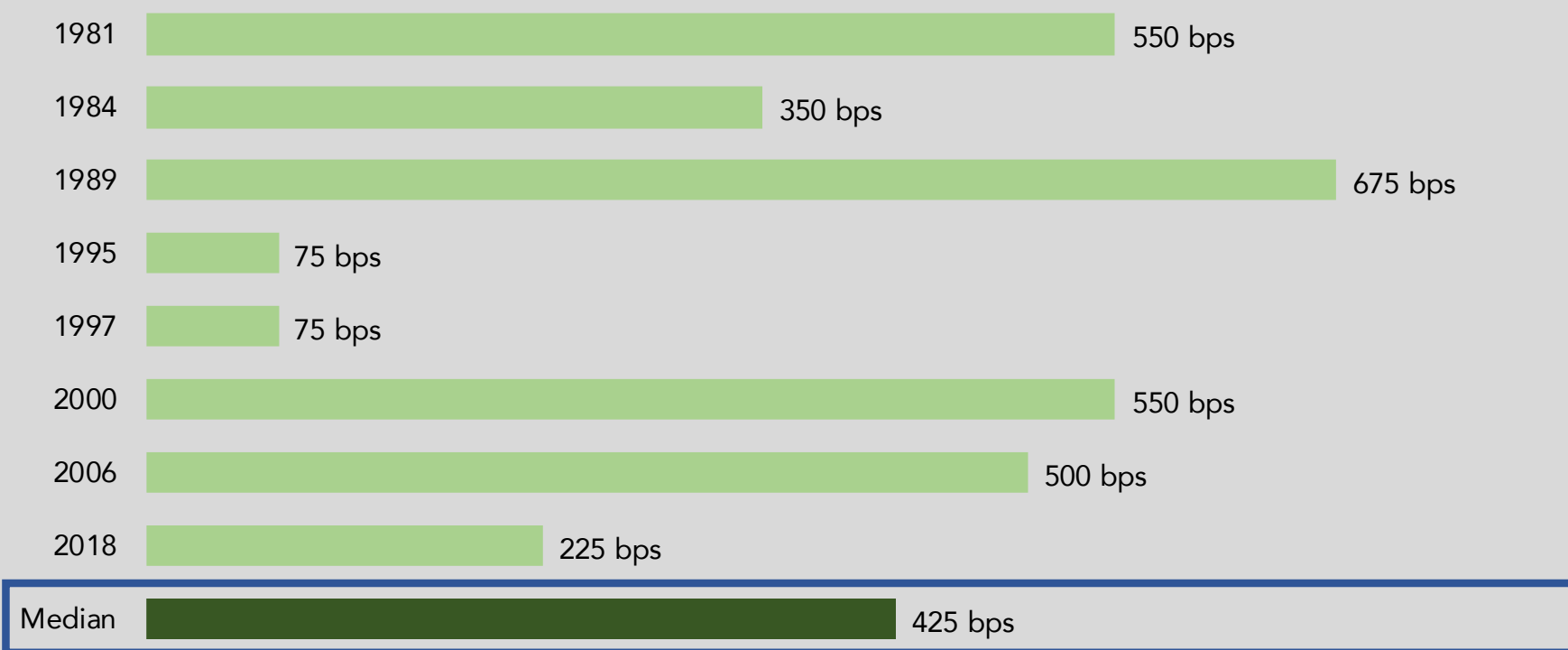
Looking at eight easing cycles since 1980, the Fed has typically cut rates by about 100 bps in the first 12 months of an easing cycle.

Total rate cuts in the 12 months after last rate hike



Looking at eight easing cycles since 1980, the Fed has typically cut rates more than 4% over the entirety of the easing cycle, with a fair amount of variability around that range.

Total rate cuts over entire easing cycle



Source: (1-5) Bloomberg. Data as of July 12, 2024. Fed Economic Data St. Louis Fed. Note: Discount rate used before 1988. Fed Fund based on upper bound.

Global Corporate & Investment Banking Capital Markets Strategy Team



Tom Joyce
Managing Director
Tom.Joyce@mufgsecurities.com
(212) 405-7472



Hailey Orr
Managing Director
Hailey.Orr@mufgsecurities.com
(212) 405-7429



Stephanie Kendal
Vice President
Stephanie.Kendal@mufgsecurities.com
(212) 405-7443



Angela Sun
Analyst
Angela.Sun@mufgsecurities.com
(212) 405 - 6952

"Macro stability isn't everything, but without it, you have nothing."