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With Fed cuts likely to resume later in the year, CIO still like quality bonds as part of a broader strategy of seeking durable income. (UBS)

Bonds should benefit from Fed cuts later this year

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The latest Fed minutes pointed to continued concern over the impact of tariffs on price stability, and "almost all participants commented on the risk that inflation could prove to be more persistent than expected."

Participants acknowledged the risk of difficult trade-offs between controlling inflation and maintaining growth. Markets largely ignored further signs of moderating price pressures in April, with the core personal consumption expenditures index rising by a monthly 0.1%, since the data have yet to reflect the impact of higher tariffs. Weaker visibility in the economic data has made policy planning more complicated for the Fed.

Despite these headwinds, we still expect the Fed to begin easing later this year. As growth moderates, we believe the central bank will remain focused on its dual mandate of price stability and full employment. Data on Friday showed some signs that Americans are becoming more cautious. Consumer spending rose just 0.2% in April, vs. 0.7% in the prior month. A rise in the personal savings rate brought it to its highest level in a year and suggests households may be bolstering their rainy day funds. It remains to be seen whether this trend will persist in coming months, given that the latest Conference Board survey indicated recovery in sentiment in May.

Takeaway: The mood in bond markets improved last week after a recent sell-off on rising concerns over the sustainability of government debt in many parts of the world. We believe policymakers will seek to head off instability in fixed income markets. With Fed cuts likely to resume later in the year, we still like quality bonds as part of a broader strategy of seeking durable income. Our base case is for the 10-year Treasury yield to end the year at 4%, from 4.43% at the time of writing.

Original report - **Positioning for longer-term equity gains despite trade uncertainty, 2 June 2025.**

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