Global Matters Weekly

22 June 2026

Let's go hiking

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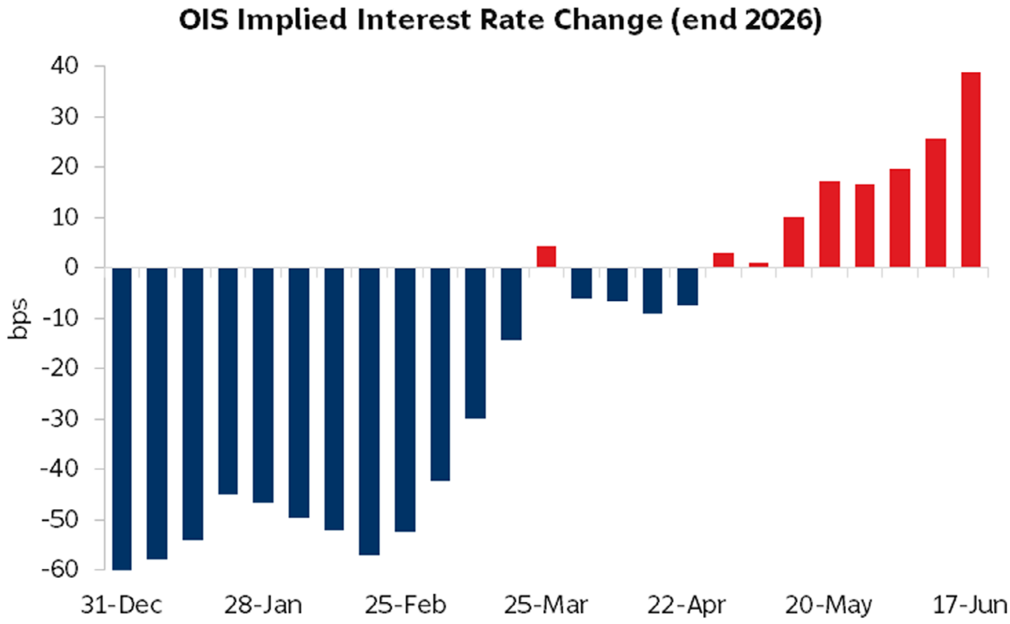

Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data to 17 June 2026.

What do the charts show?

The chart illustrates how market expectations for future US Federal Reserve policy rates have evolved so far this year, based on the overnight index swap (OIS) curve.

Since the onset of the Iran conflict, markets have adopted a steadily more hawkish stance on rates. Expectations have shifted to the point where investors are now even pricing in potential rate hikes – despite the appointment of a new Fed Chair, Kevin Warsh, who Trump appointed after criticising the previous chair for not cutting rates aggressively.

This shift was reinforced by Wednesday's Federal Reserve meeting. Somewhat unexpectedly, half of the 18 officials submitting projections indicated that they anticipate rate hikes by year-end, prompting a further increase in market-implied policy rates.

Stronger-than-expected US labour market data for May has also contributed to this shift, reducing the urgency for rate cuts. With greater resilience in employment, the Fed has more room to prioritise its inflation mandate.

At the same time, the effects of the closure of the Strait of Hormuz has started to feed through into global supply chains, raising the likelihood of sustained inflationary pressures. In this context, tighter monetary policy may be required to contain price increases.

Overall, markets are now pricing in nearly 40 basis points of rate hikes, a sharp reversal from the roughly 60 basis points of cuts expected at the start of the year.

Why this is important

Higher interest rates have a direct impact on corporate behaviour - discouraging borrowing, slowing investment and potentially weighing on earnings growth. For investors, this shifts the focus from expansion-driven returns toward profitability and resilience, which could prove problematic for a country dominated by mega-cap growth stocks with nerve-testing valuations.

At the same time, higher yields on fixed income instruments offer better alternatives. Bonds and other income-generating assets begin to offer more attractive risk-adjusted returns, creating genuine competition for equities. This can lead to a repricing across asset classes, as investors no longer feel compelled to chase risk in search of yield.

Currency dynamics add another layer. A relatively hawkish US rate outlook can support the dollar by attracting global capital seeking higher returns. While this strengthens purchasing power domestically, it can create headwinds for multinational companies and reduce the value of overseas earnings when translated back into dollars.

Ultimately, rising rate expectations force investors to think more carefully about balancing allocations across asset classes and regions. It's clear that the path ahead is getting steeper and investors may need to brace for a tougher climb.

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Important notes