

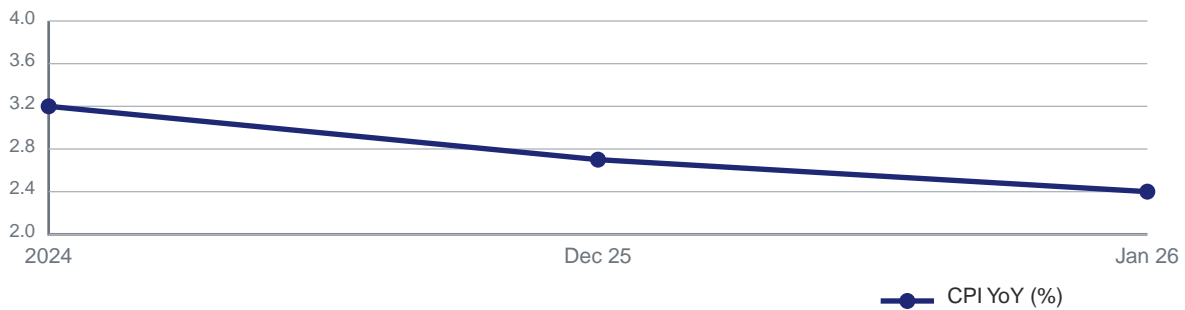
Rate Cuts 2026: A Wall Street Divide

Research Team

February 16, 2026

January 2026 consumer price data showed continued disinflation, with CPI rising 2.4% year-over-year, down from 2.7% in December, and 0.2% month-over-month. The print supports the case for Fed rate cuts in 2026, but Wall Street brokerages are sharply divided: most expect the first cut in June, while JPMorgan, HSBC, and BNP Paribas project no cuts at all. This divergence has important implications for bond yields, duration sensitivity, and cross-asset positioning.

CPI Inflation YoY (2024-2026)



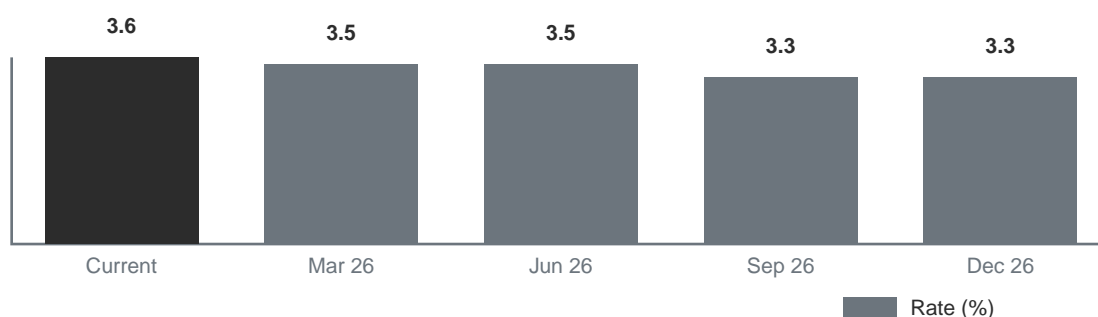
Source: Bureau of Labor Statistics

Executive Summary

January 2026 CPI cooled to 2.4% YoY, with core at 2.5%, moving the Fed closer to its 2% target. Shelter rose 0.2% MoM and remained the largest driver; energy fell 1.5%, partially offsetting gains. The federal funds rate stands at 3.5 to 3.75% following the January 27 to 28 FOMC meeting. Goldman Sachs, Morgan Stanley, Barclays, and Bank of America forecast the first cut in June 2026, with 1 to 2 cuts (50 bps) total for the year. Market-implied expectations show roughly 55% probability of a June cut. The 10-year Treasury yield trades around 4.09 to 4.22%, while the S&P 500 has struggled in February amid AI disruption concerns, retreating from its January high near 7,000.

Key Takeaways:

Fed Funds Rate and 2026 Projections



Source: Federal Reserve, Consensus Forecasts

- January 2026 CPI at 2.4% YoY supports disinflation; core at 2.5% keeps the 2% target within reach. Shelter and services remain the key swing factors.
- First Fed cut expected June 2026 by most brokerages; 1 to 2 cuts (50 bps) consensus. JPMorgan, HSBC, and BNP expect no cuts in 2026.
- 10-year Treasury yield ~4.1%; duration demand remains sensitive to inflation and labor data. Over 80% probability of unchanged rates through March.
- Portfolio implications favor quality and selective duration. Equity markets face AI disruption headwinds despite softer inflation.

The Inflation Picture

The January 2026 CPI report extended the disinflation trend. All-items CPI rose 0.2% MoM and 2.4% YoY; core (ex food and energy) rose 0.3% MoM and 2.5% YoY. Food increased 2.9% over the year while energy declined 0.1%. Shelter was the largest contributor to the monthly gain. The data supports the case for eventual rate cuts, though the Fed has emphasized data dependency. The February 2026 CPI is scheduled for release on March 11.

Market Expectations for Rate Cuts

Wall Street brokerages are sharply divided. Goldman Sachs, Morgan Stanley, Barclays, and Bank of America expect the first cut in June 2026, with 1 to 2 cuts (50 bps) total. Citigroup has pushed its first-cut forecast to March or April following strong January job growth. By contrast, JPMorgan, HSBC, and BNP Paribas expect no rate cuts in 2026. Market-implied expectations show cumulative cuts of roughly 50 to 58 bps through year-end 2026, with a 55% probability of a cut at the June meeting. Traders price an over-80% probability of unchanged rates through March.

Bond Market and Duration Sensitivity

The 10-year Treasury yield trades around 4.09 to 4.22% as of mid-February 2026. The Fed held rates at 3.5 to 3.75% at the January FOMC; minutes were released February 18. Duration demand remains sensitive to inflation and labor data. Bond investors should balance shorter-duration exposure with selective duration if cuts materialize in mid-2026. TIPS may offer protection if inflation proves stickier than expected.

Equity and Cross-Asset Implications

The S&P 500 has struggled in February 2026, declining 1.16% for the month and retreating from its 52-week high of 7,002 set on January 28. The Nasdaq posted its fifth consecutive negative week in mid-February, its longest losing streak since 2022. AI disruption concerns across real estate, trucking, and financial services have weighed on sentiment. Softer January CPI provided some support but was overshadowed by these structural worries. Quality factors with earnings durability remain favored.

Strategic Portfolio Considerations

Investors should position for divergent outcomes. If cuts materialize in June, duration and growth-sensitive assets could benefit. If the no-cut camp prevails, quality, shorter duration, and defensives remain preferred. Balance-sheet strength and pricing power are key equity selection criteria. Gold remains a hedge against policy uncertainty and inflation surprises.

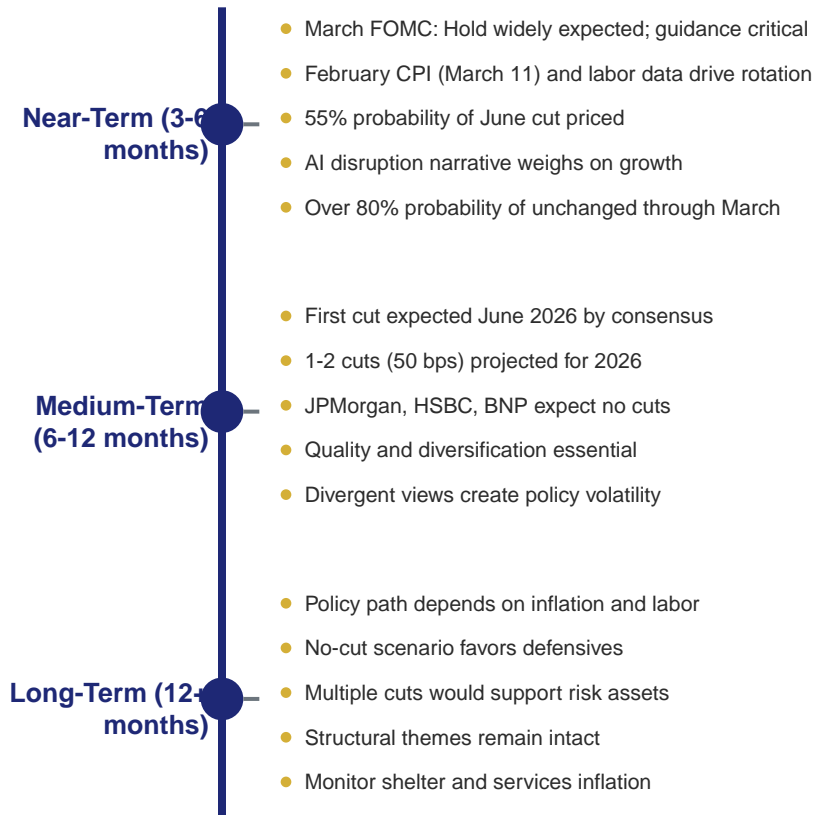
Timeline and Outlook

Near-Term Outlook (3-6 months): March FOMC widely expected to hold; guidance will shape June cut probability. February CPI (March 11 release) and labor data drive rotation. AI disruption narrative remains a headwind for growth stocks.

Medium-Term Outlook (6-12 months): First cut likely June 2026 if inflation continues cooling; 1 to 2 cuts consensus. Divergent bank views create volatility around policy inflection points. Quality and diversification remain essential.

Long-Term Outlook (12+ months): Structural themes intact; policy path depends on inflation and labor. No-cut scenario would favor defensives and shorter duration. Multiple cuts would support risk assets and duration.

Timeline Overview



Source: AVANTAS Research Analysis

Risk Factors

Inflation Re-acceleration Risk: Upside surprises could validate the no-cut view, pushing yields higher and pressuring duration-sensitive assets. Shelter and services inflation remain sticky.

Labor Market Risk: Strong employment data supports the Fed's patient stance. Weakness could revive cut expectations but would signal broader economic stress.

AI Disruption Risk: Structural concerns about AI's impact on industries could extend equity volatility independent of rate policy.

Divergent Views Risk: Sharp disagreement among forecasters increases uncertainty around policy inflection points and market reaction.





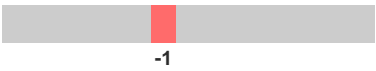
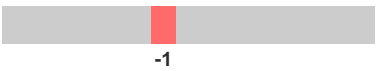
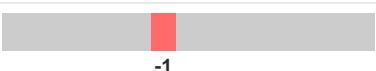
Conclusion

January 2026 CPI cooling supports the case for mid-2026 rate cuts, but Wall Street is sharply divided, from no cuts (JPMorgan, HSBC, BNP) to 2 to 3 cuts (consensus, Citigroup). Investors should favor quality and remain nimble to inflation and labor data. The regime favors selectivity over complacency.

Asset Class Impact

Short-duration bonds and floating-rate securities reduce policy sensitivity. Quality equities with pricing power are preferred. Gold benefits from policy uncertainty. Long-duration bonds are tactical, overweight if June cut materializes, underweight if no-cut view prevails. High-yield credit faces refinancing risk if rates stay elevated.

Asset Class Impact

Asset	View	Commentary
Short-Duration Bonds	 +1	Overweight. Reduces sensitivity to yield spikes; income with lower duration risk.
Floating-Rate Securities	 +1	Overweight. Benefits from delayed cuts; protects if rates stay higher.
Quality Equities	 +1	Overweight. Pricing power and balance-sheet strength favored in rate volatility.
Gold	 +1	Overweight. Hedge against inflation surprises and policy uncertainty.
Long-Duration Bonds	 -1	Underweight. Vulnerable to further yield repricing and inflation persistence.
High-Beta Growth	 -1	Underweight. Sensitive to rate expectations; crypto and selective growth lag.
High-Yield Credit	 -1	Underweight. Refinancing risk if rates stay elevated.

Source: AVANTAS Research Analysis