

# Global Fixed Income: Yield Curve Beyond Central Bank Control



*2025 showed that central banks can still move the short end, but the long end now belongs to fiscal supply, term premia, and credibility a regime shift that defines higher-for-longer risks in 2026.*

*- UBI Research*

## 1) What has happened so far in the global bond market?

- ❖ The Fed has cut rates aggressively and repeatedly, but bond markets made it clear that monetary policy can steer the front end, not the long end, in a world dominated by fiscal supply, inflation risk, and term premia.

## 2) Why, despite rate cuts, are long-term rates still elevated?

- ❖ **Fiscal supply dominance:** Heavy Treasury issuance (~\$2.4 trillion) and debt sustainability (US Outstanding federal debt \$30+ trillion) concerns lifted term premia.
- ❖ **Inflation uncertainty:** Markets priced a higher long-run inflation risk despite short-term disinflation.
- ❖ **Term-premium repricing:** Volatility and duration risk demanded compensation beyond policy guidance.
- ❖ **Weakened forward guidance:** Political and institutional uncertainty diluted the Fed's control over expectations.

## 3) Why, despite rate cuts, are long-term rates still elevated?

- ❖ **Markets are not pricing a return to hikes in the US or Europe in 2026, but they are pricing a world where space for easing from developed economy central banks is less, rate cut cycle ends sooner, and with Japan moving in the opposite direction.**

## 4) What is the U.S. inflation outlook? Do tariffs pose risks?

- ❖ In US, headline CPI inflation has stayed above the Fed's 2% target consistently for the last 36 months, a cause for concern.
- ❖ These US inflation dynamics underscore a two-speed inflation regime: services are easing as **shelter cools**, while **goods inflation is firming on tariff pass-through**.
- ❖ **Tariffs add an upside risk**: renewed or higher tariffs raise input costs, disrupt supply chains, and can reintroduce goods-price inflation, complicating the disinflation path.
- ❖ Outlook assessments vary, but persistent inflation pressures keep longer yields from collapsing.

## 5) How does central-bank independence affect global markets?

- ❖ Rising political pressure on central banks has increased market sensitivity to institutional credibility, with investors demanding higher risk premia when independence is questioned.
- ❖ In **the U.S.**, renewed tensions recently between **President Trump and Chair Powell** including public criticism of the Fed's rate stance have revived concerns that policy decisions could become politically influenced rather than data-driven.
- ❖ The result is **higher volatility in FX and long-dated bonds**, as markets price uncertainty around future policy frameworks rather than just inflation and growth fundamentals.

# Asset Prices in 2025: Direction Without Convergence

Asset Class	Global asset moves in 2025	Indian asset moves in 2025	What This Means
Equities	Dow: +14.9%	Nifty :+9.4% Sensex: +7.9%	Global equities rallied, but India lagged as easing no longer lifts all markets equally
Bonds (Yields)	US2Y: -80 bps	India10Y: -19 bps	Rate cuts helped the front end, but long-end relief was limited higher-for-longer persists
	US10Y: -45 bps	India5Y: -41 bps	
FX	DXY: -10.0%	INR: -4.9%	Dollar weakness did not translate into EM FX strength risk premia dominated
Commodities	Oil: -19.9%	—	Growth-linked commodities weakened amid oversupply and geopolitics
	Gold: +64.6% Silver: +163%	—	Hedge assets surged as aggressive central-bank purchases, fiscal dominance fears amid falling confidence in fiat anchors.
Digital Asset	Bitcoin : -7.48%		

What has happened so far in the global  
bond market?

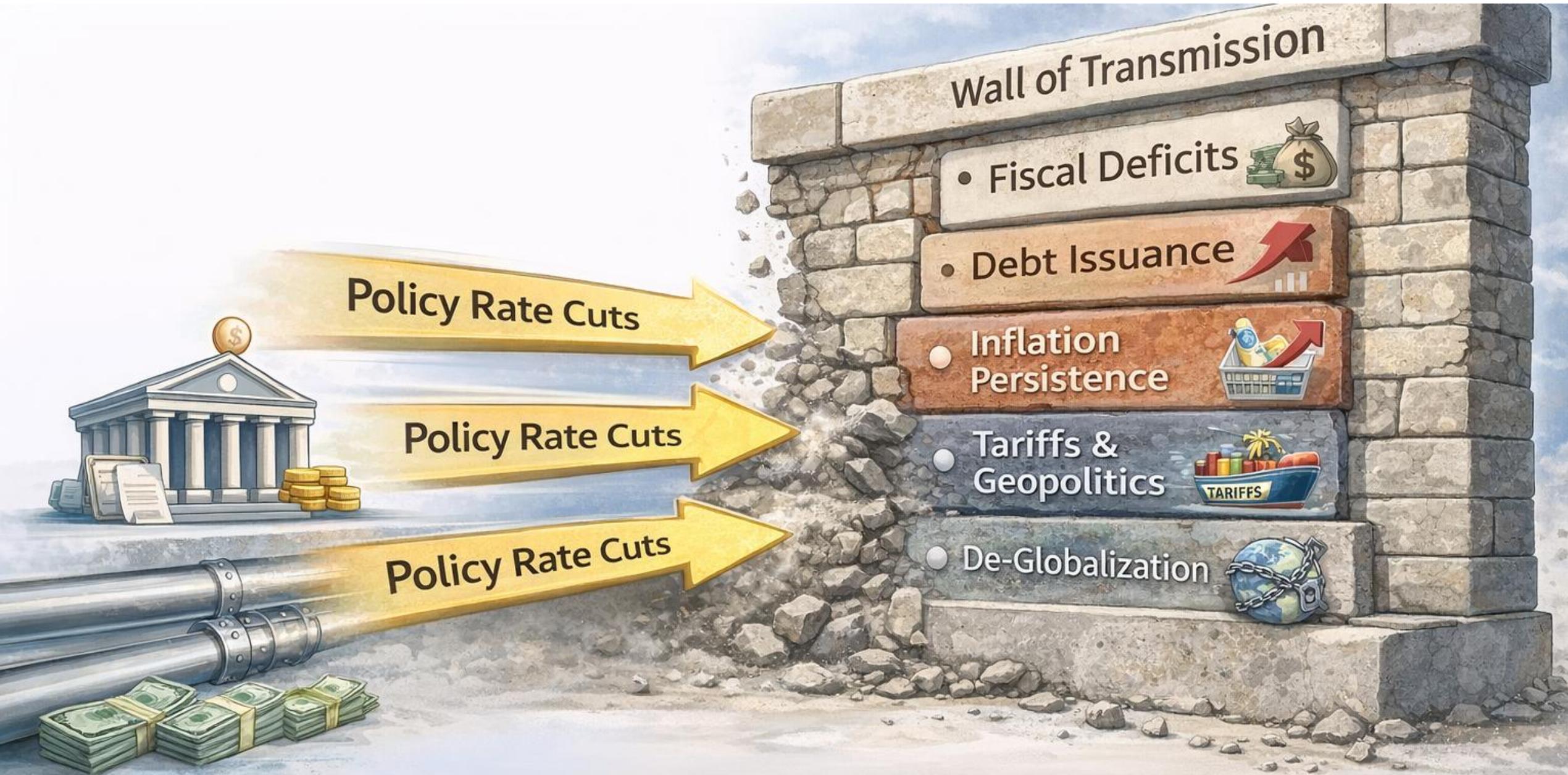
**Despite multiple rate cuts, the US 30Y ended 2025 near cycle highs**

Fed Rate Cut Date	Rate Cut Size	US 2Y Yield	US 10Y Yield	US 30Y Yield
18-Sep-2024	-50 bps	3.64%	3.72%	4.05%
18-Dec-2024	-25 bps	4.23%	4.40%	4.61%
19-Mar-2025	-25 bps	4.09%	4.32%	4.60%
18-Jun-2025	-25 bps	3.94%	4.37%	4.87%
17-Sep-2025	-25 bps	3.55%	4.08%	4.68%
17-Dec-2025	-25 bps	3.48%	4.15%	4.82%
17-Jan-2025	-	3.59%	4.23%	4.83%

The Fed has cut rates aggressively and repeatedly, but bond markets made it clear that monetary policy can steer the front end, not the long end

- **Aggressive start (Sep-2024):** The Fed kicked off the easing cycle with a front-loaded 50 bps cut, yet long-end yields barely followed, with the 30Y still at ~4.05%, signalling early resistance to policy transmission.
- **Pause & reassessment (Dec-2024):** Despite a further 25 bps cut, 2Y yields jumped higher (to ~4.23%) and 10Y-30Y moved up sharply, indicating markets questioned the durability of easing amid inflation and fiscal concerns.
- **Gradual restart (Mar-Jun 2025):** As cuts resumed in 25 bps increments, the 2Y eased modestly, but 10Y and 30Y stayed elevated (~4.3-4.9%), reflecting term-premium and supply dominance over policy rates.
- **Late-cycle confirmation (Sep-Dec 2025):** With additional cuts delivered, the front end finally softened, yet the 30Y ended 2025 near cycle highs, reinforcing that rate cuts compressed the short end but failed to anchor long-term yields.

# Why Rate Cuts Lower the Front End but Not the Long End



Why, despite rate cuts, are long-term rates still elevated?

# Bond Yields and Central Banks: A Growing Disconnect (1)

Central Bank	Rates	Liquidity	Balance Sheet	Short End Yields	Long End Yields	Policy-Market Alignment
US (Fed)						
ECB						
UK (BoE)						
Japan (BoJ)						
India (RBI)						
Indonesia (BI)						
Brazil (BCB)						

## ◆ Policy / Action Columns

-  = Easing / Supportive
-  = Neutral / Mixed
-  = Tightening / Withdrawal

## ◆ Market Response Columns

-  = Yields fell meaningfully
-  = Sideways / muted response
-  = Yields rose / stayed elevated

## ◆ Alignment Column

-  = Policy worked as intended
-  = Partial transmission
-  = Clear disconnect

- *Rate cuts didn't pull long yields down: Central banks cut policy rates in 2025, but long-term bond yields stayed high, showing that rate cuts no longer fully flow through the bond market.*
- *Emerging market eased cautiously to protect currencies, while Japan saw yield spike as policy rates normalised.*

# The Growing Disconnect Between Central Banks and Bond Yields (2)

Central Bank	Policy Rate Change	OMO / QE / QT (2025 summary)	2Y Δ (bp) (last 18 month)	10Y Δ(bp) (last 18 month)	30Y Δ(bp) (last 18 month)
US (Fed)	-75 bp	QT ended in Dec; short-term OMO allowed	-19	+41	+78
Euro Area (Germany)	-75 bp	APP reinvestments stopped; PEPP already ended	-64	+30	-19
UK (BoE)	-100 bp	QT via gilt run-off ongoing	-	+58	+75
Japan (BoJ)	+50 bp	Bond purchases reduced (normalisation)	+100	+148	+145
India (RBI)	-125 bp	OMOs + FX swaps	-76	-19	+23
Brazil (BCB)	+175 bp	No QE; restrictive liquidity stance	-140	-75	-28

*Across 2025, policy rates moved decisively, but long-dated yields were driven by balance-sheet policy, fiscal supply, and term premia rather than rate cuts.*

Are markets pricing rate hikes in near term or expect the easing cycle to continue?

## Market-Implied Policy Direction - 2026 (Probability)

Central Bank	Expected Policy Path (2026)	Rate Cut Probability	No-Change Probability	Rate Hike Probability	Market Signal for 2026
US Fed	Gradual easing / extended pause	70–93% (mid-to-late 2026)	7–30%	0%	No rate hike expected
ECB	Extended pause with a mild easing bias	10–14%	82–99%	0–5%	Policy expected to remain on hold
BoE	Easing cycle remains intact	65–88%	12–35%	~0%	Rate cuts expected (~45 bps)
BoJ	Normalization continues	<3%	Falling through year	50–85%	Rate hikes expected (~40 bps)

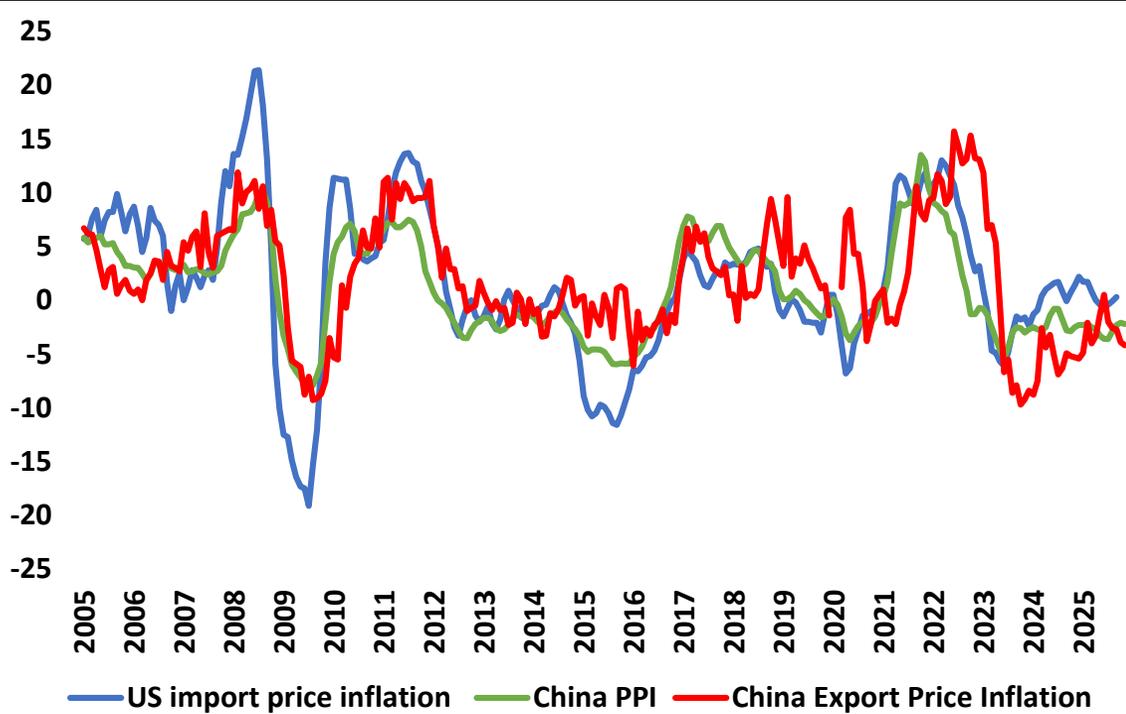
*Markets see 2026 as the end-game of the easing cycle constrained by inflation, fiscal pressure, and credibility not the start of a new hiking phase.*

What is the U.S. inflation outlook? Do tariff hikes pose risk?

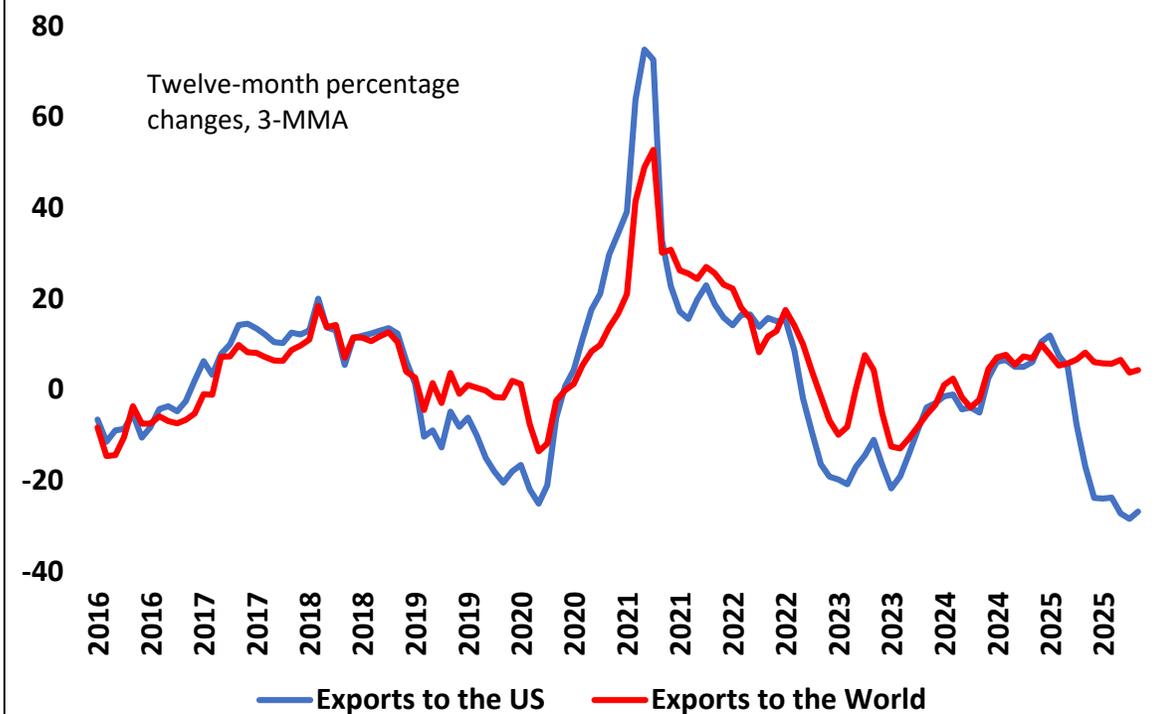
Month 2025	Headline CPI	All items ex food & energy	Shelter	Food	Energy	Core goods
Apr	2.3%	2.8%	4.0% ↓	2.8%	-3.7%	0.1% ↑
May	2.4%	2.8%	3.9% ↓	2.9%	-3.5%	0.3% ↑
Jun	2.7%	2.9%	3.8% ↓	3.0%	-0.8%	0.7% ↑
Jul	2.7%	3.1%	3.7% ↓	2.9%	-1.6%	1.2% ↑
Aug	2.9%	3.1%	3.6% ↓	3.2%	0.2%	1.5% ↑
Sep	3.0%	3.0%	3.6% ↓	3.1%	2.8%	1.5% ↑
Nov	2.7%	2.6%	3.0% ↓	2.6%	4.2%	1.4% ↓
Dec	2.7%	2.6%	3.2% ↑	3.1%	2.3%	1.4% ↓

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- *These US inflation dynamics underscore a two-speed inflation regime: services are easing as shelter cools, while goods inflation is firming on tariff pass-through.*
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## China Export Prices and Global Inflation: A Powerful Transmission Channel



## China's Trade Surplus Expands Despite U.S. Export Decline



- Despite higher U.S. tariffs, China's export prices continue to closely track U.S. import inflation, indicating limited tariff pass-through and reinforcing China's role as a global disinflation anchor.
- China's exports to the U.S. fell by roughly 20% in 2025, but this was more than offset elsewhere. China's overall trade surplus surged to a record \$1.19 trillion, up 20% from \$993 billion in 2024, underscoring the resilience of its manufacturing base and its ability to absorb trade shocks. The decline in the U.S. surplus has been compensated by stronger penetration into other markets, particularly Southeast Asia, where Chinese exports have increasingly redirected and intensified.

*The key question today is not whether central banks can cut rates it's whether those cuts still transmit to the long end in a world dominated by fiscal supply and credibility..*

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# Thank You !

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