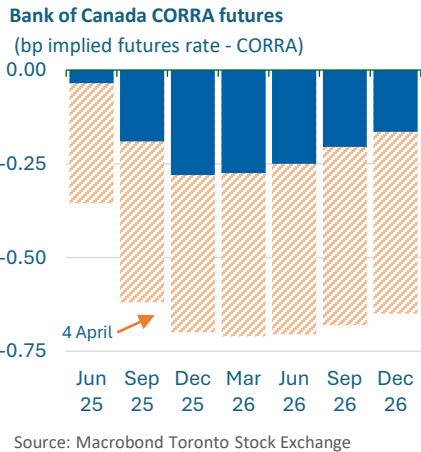
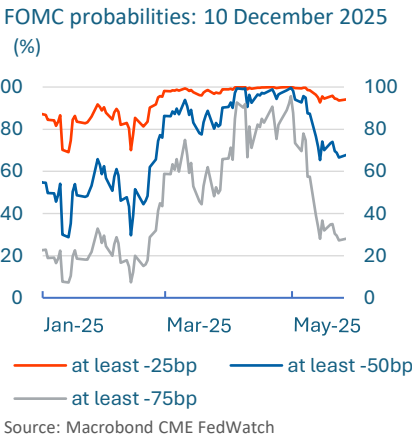
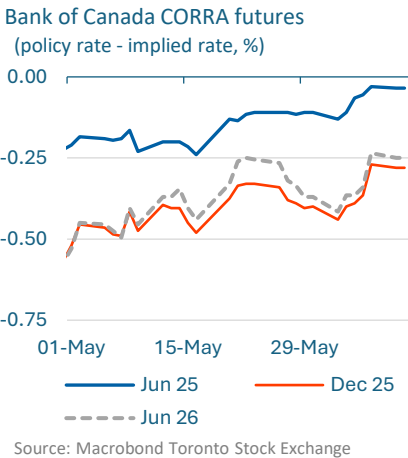


Bank of Canada and Federal Reserve seen as less aggressive in cutting rates toward year end

10 June 2025



Markets are assigning lower probabilities toward rate cuts by the Bank of Canada and the Federal Reserve.

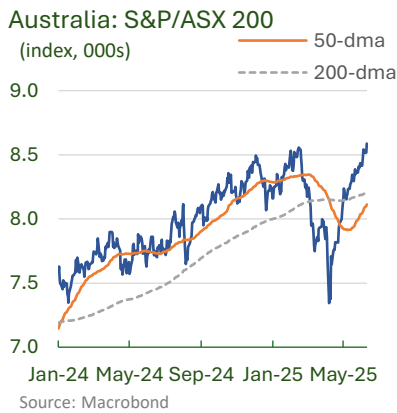
In Canada, after leaving rates unchanged on 4 June, the most likely view was that the Bank would still have to cut the policy rate by at least 25bp, and that a move on 30 July was the most likely outcome. This made sense as the BoC would update its economic outlook and could better frame the fallout from US tariffs on the Canadian economy. A rate cut is still priced in before year-end, but the market is placing less urgency on a rate cut at the next opportunity, as the probability of a rate cut in July is below 30%.

The current situation is far different than early April. In the wake of Trump47’s tariff announcement on Liberation Day (2 April), the market was pricing in aggressive rate cuts before year end. As Trump47 stepped back, market’s have rebounded. There is still a great deal of economic uncertainty, most recently highlighted by the World Bank reducing its US and global economic outlooks. Global growth is now pegged at 2.3% for 2025, down from 2.7% in their prior forecast. The outlook for US GDP growth was cut to 1.4% from 1.8%. Overall, the World Bank cut growth forecasts for 70% of all economies — “across all regions and income groups” — largely due to increased “trade tensions and policy uncertainty.”

In the US, despite some prominent calls to reduce its policy rate by 100bp, the market has been reducing the probability of aggressive rate cuts. At the end of April, the market was placing a 95% probability on the Fed reducing its target range for the fed funds rate by at least 75bp by year end. However, given signs of ongoing resilience in the economy, equity markets have rallied back with vigour and the market now places only a 20.9% probability on at least 75bp of rate cuts by year end. The probability assigned to the fed funds target rate falling by at least 50bp is still over 60%. Hence, there is still a high level of conviction that rates will decline, but there seems less need for aggressive rate cuts.

Most global markets are well off early April lows. Some have hit new highs. US markets aren't there yet

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