Markets Lean Toward a December Rate Cut as Yields Test Key Technical Levels

Markets are now widely expecting a rate cut at the Fed's next meeting on December 10, and this shift in rate policy sentiment has had a meaningful impact on markets over the past two weeks. Treasury yields are trading at key technical inflection points ahead of next week's FOMC, with a high probability of a rate cut reinforcing a cautiously bullish outlook for lower yields despite near-term resistance in both the 2s and 10s. Further, corporate bond spreads have tightened since their November wides, while municipals are expected to remain positive in performance for the rest of the year. The labor market and inflation dynamics at the core of the Fed's dual mandate will continue to be central to rate sentiment going forward, and while attention seems to have shifted toward slowing unemployment, it will be important to monitor this in the coming weeks.

2yr UST (Daily Chart)

- After a short rally in Treasuries, the 2-year Treasury rate rebounded from its long-term support (in yield terms) at 3.45% and is currently attempting to reclaim its 50-day moving average (currently at 3.55%) as well as the 2023 low. If the 2-year yield breaks above this resistance, we could see further upside in the short term.
- With the final FOMC decision just one week away, the probability of a rate cut has risen to 91% from 29% just two weeks ago, based on Bloomberg's model. With the market currently pricing a strong likelihood of another rate cut at next week's Fed meeting, the probability of lower yields remains high.
- In the short term, 3.47% is the first support to break before moving lower, followed by 3.45% (April's low, as well as multiple intraday lows in October before rates moved higher after November's FOMC). On the other hand, if the 2-year reclaims its 50-day moving average, yields could quickly retest the descending trendline resistance, currently in the range of 3.63% to 3.56% by year-end.



Source: Bloomberg, Piper Sandler

10yr UST (Daily Chart)

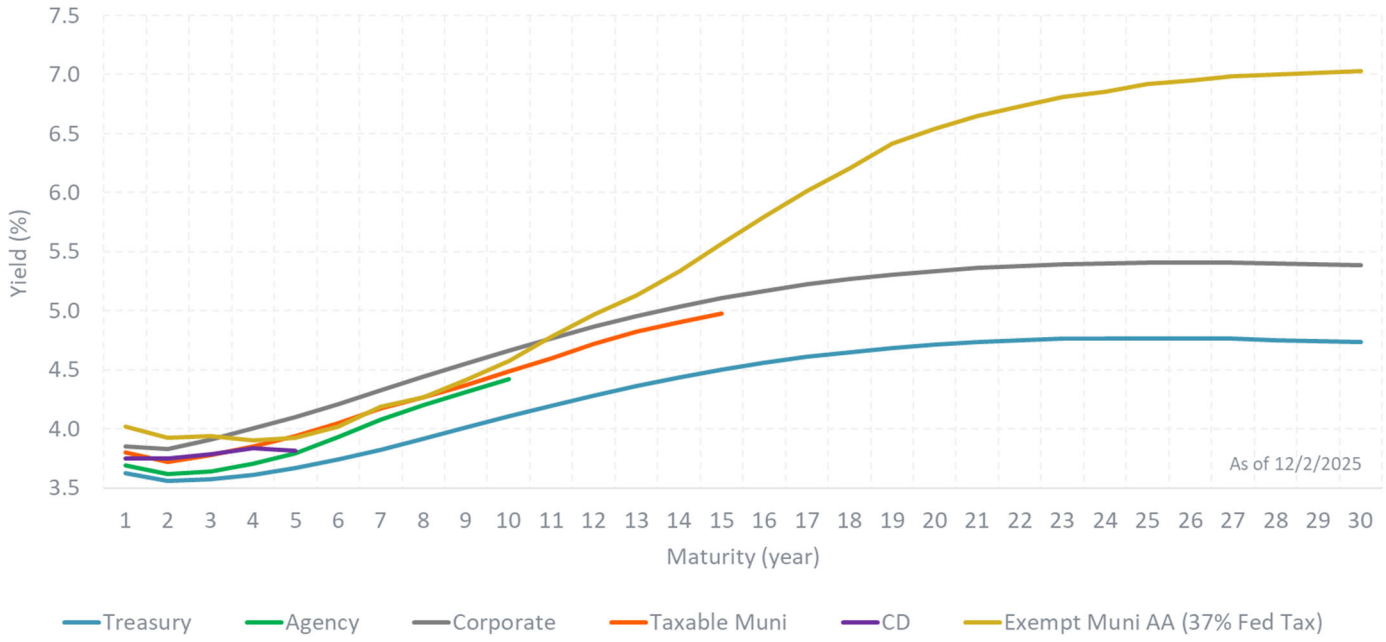
- Similar price action is seen in the 10-year Treasury. Yields rebounded from the 4% mark and are currently trading just below the upper range of the trading channel, around 4.11%. This is a critical level to watch for a potential reversal, as the momentum indicator (MACD) is signaling a possible short-term pullback. A break above this level could send yields toward the 4.17% resistance.
- On the bullish side, the 50-day moving average will be critical for yields to move back toward a lower-rate trajectory in the near term. The 4% level is the first support to test for further downside, followed by 3.93% (October's low). Unless the 10-year breaks above the upper channel resistance, the technical outlook continues to favor lower rates.



Source: Bloomberg, Piper Sandler

Fixed Income Cross Sector

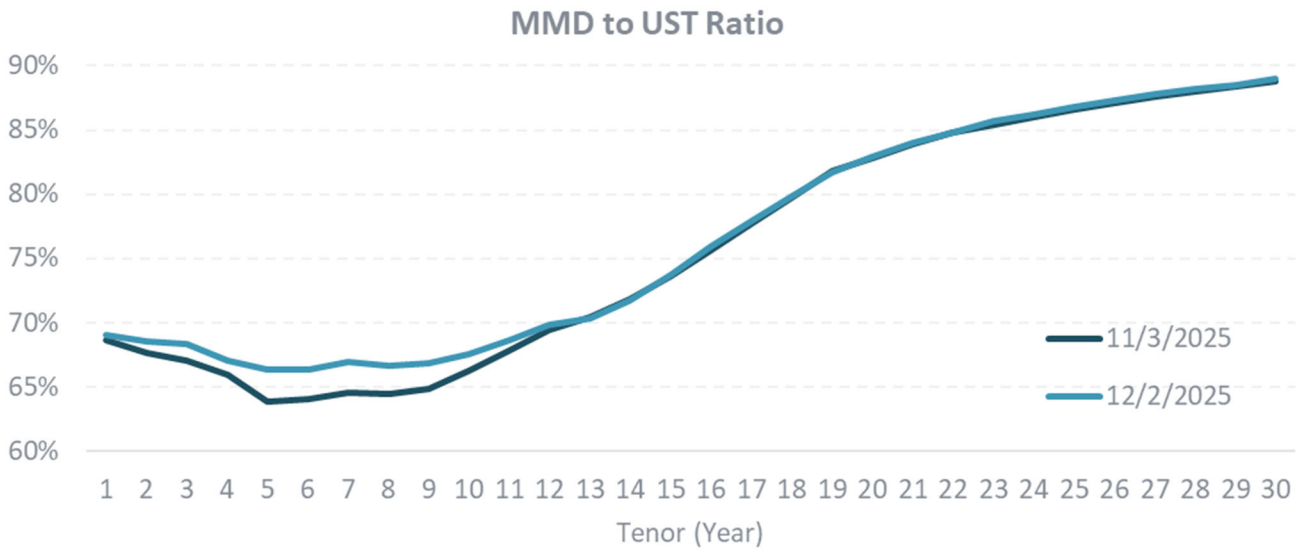
- Cross sector yield curves were mostly unchanged, except for ultra long duration exempt municipals, which moved slightly higher relative to two weeks ago. Exempt municipals still offer better value in the front end of the curve (3 years and in) or in longer durations (12 years+) for investors in the highest tax bracket, while corporates continue to offer better value in the intermediate sector (5–10 years).
- As a reminder, as we enter December, it is time to consider tax-loss swaps, where investors may reduce positions at a loss to offset realized gains for tax purposes and optimize total returns.



Source: Bloomberg, MMD, Piper Sandler

Municipals

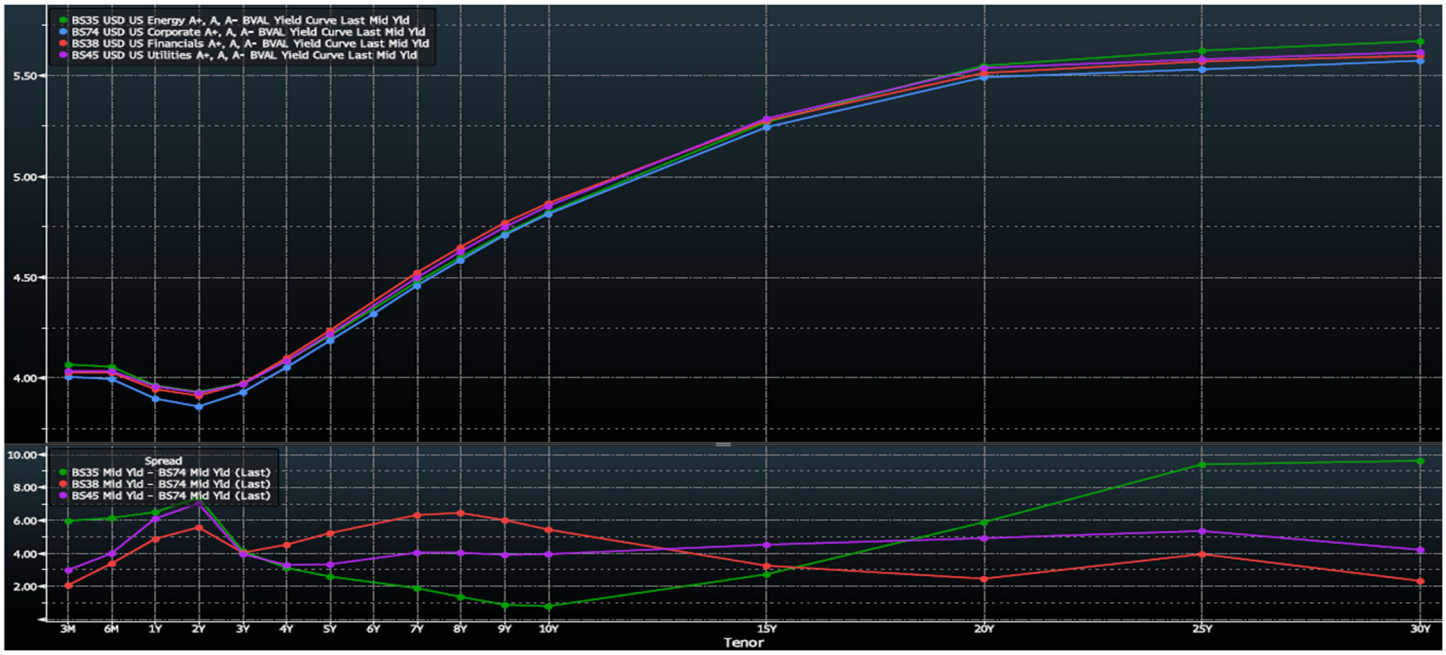
- The municipal yield curve steepened in November. Front-end rates (1 - 4 years) declined by 2 bps, while the long end (23 - 30 years) cheapened by about 6 bps.
- Based on municipal-to-Treasury ratios, munis have cheapened across the short and intermediate part of the curve, with the most attractive relative value concentrated in the 5 - 10 year range.
- The total return of the ICE BofA US Municipal Securities Index (U0A0) was 0.24% in November, marking it the fourth straight month of positive returns. December is likely to continue this trend, as the final month of the year typically sees a rally based on seasonality. Light new issuance and moderate demand will continue to support the municipal market in December.
- MSRB trade data indicate that investors favored intermediate maturities, particularly bonds with durations in 4 - 5 years range, alongside demand for ultra short paper (1 year and in). Trading flows suggest increased customer selling of long duration bonds, consistent with curve steepening.



Source: Bloomberg, MMD, Piper Sandler

Corporates

- Corporate bond spreads have largely tightened from the recent mid-to-late November widening (shown below), but the Bloomberg US Corporate Avg OAS index (LUACOAS) remains 7 - 8 bps wider than the two-decade-plus low of 72 bps set on 9/18/25. Investors should continue to be tactical about pockets of opportunity in corporate credit, and the belly of the curve (5 - 10 years) continues to look attractive relative to comparable taxable products, as the cross-sector curve shows.
- The technical setup favors allocation toward financials and energy and defensive sectors such as utilities, while the Fed and the rate environment and ongoing headline risks will continue to drive performance and pockets of opportunity in riskier sectors and credits. Financials in the belly of the curve are currently 5 - 6 bps wider than the aggregate A curve, which could be an area of opportunity for relative value selection.



Source: Bloomberg

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