

USTs: Crude Brutes, Fed Bear Flatteners & Tactical TACO (Reversals)

“She generally gave herself very good advice, (though she very seldom followed it).” – Lewis Carroll, Alice in Wonderland

In a Nutshell: **Geopolitics** and **FOMC agitations** are setting the stage to **entrench UST bear flattening tendencies**. Fact is, despite Iran’s 14-point plan alleviating crude squeeze, **significant threat of protracted Straits (of Hormuz) blockade** remains, underpinning upside risks in oil that flow-through to UST yields. And (more prominently) **emerging hawkish inclinations** within the FOMC reinforce this (bearish UST bias) with accentuated front-end sensitivities. But **unmitigated bearish UST bets need to be tactically mindful of “TACO”** relief that can turn the tables quickly.

(Bearish) Crude Brutes

- **UST yields surged last week, led by the front-end**, in a **brutal** intra-week move (up 10-15bp) as **geo-politics** and **FOMC** collided.
- For one, **brutish crude bulls** (squeezing Brent from ~\$105 to \$120-125) **overwhelmed**, as *Trump dug his heels in with regards to the Straits of Hormuz blockade*.
- Since then, **Iran’s 14-point plan** (although rejected by Trump) **has helped quell the most acute iterations of risks** (fading Brent to (~\$108) by end of the week).
- But the **threat of prolonged, war-induced “oil shock”** (that could incite renewed upside in yields) *are not put to bed*.

Fed (Bear) Flatteners

- Especially as **resultant pipeline inflation shocks** are **initially primed for a hawkish inflection***, *consistent with higher yields led by the front-end (bear flattening)*.
- **Entrenching the bear flattening** was the **hawkish-by-dissent “Powell” hold** at the April FOMC last week.
- Specifically, as **3 dissenters objected to retaining reference to easing bias in the statement** – **signalling even/rising odds of a hike** in the works.
- This initially lifted 2Y yields (~15bp) to above 3.9% and 10Y yields (11-12bp) to breach 4.4% amid conspiring surge in Oil.
- But has since softened alongside Oil’s late week pullback (to 3.88% for 2Y and 4.37% for the 10Y).

Tactical TACO Buffer?

- To be sure, **UST bear flattening** (upside in yields) bias is likely to remain mostly intact given:

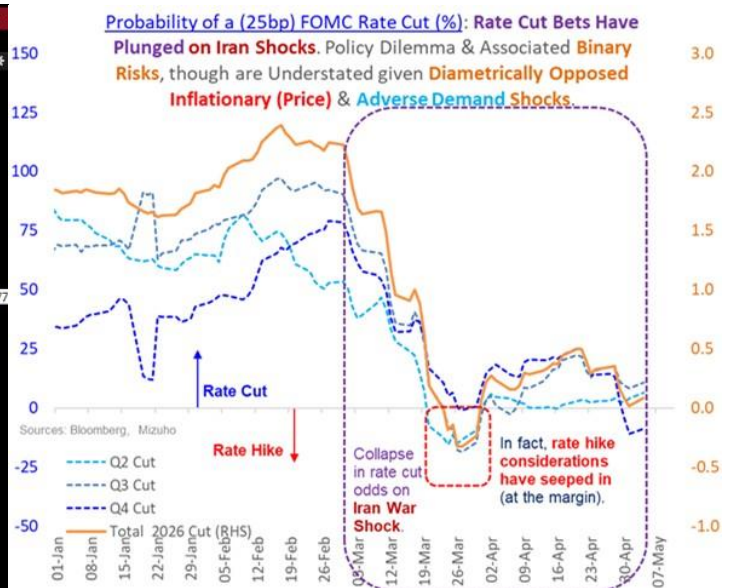
- **Protracted Straits of Hormuz blockade** as Trump looks set to pressure Iran further, which *could lift oil and yields in tandem* and;
- **increasingly hawkish Fed bias**, with Fed’s Kashkari (one of the three dissenters) calling for policy outlook to signal “*next rate change could be either a cut or a hike*”.
- **But equally, sharply bearish** (rising yields) **UST outbursts** are **increasingly likely to trigger TACO relief** (reversal) for UST yields (alongside wider “risk on”).
- The evidence has stacked up thus far. *Whenever 10Y UTS yields test/exceed 4.5%*, Trump/Bessent promptly offer *soothing words effectively allaying upside in yields*.
- So, there are reasons to be tactically cautious on pushing the bearish envelope on USTs.
- *But that said, UST bears continue to build the strategic case*.

*This not only refers to diminished prospects of resuming cuts, but more importantly, growing odds of inflecting to hikes/hiking cycle.

Figure 1. Brent Crude Price



Figure 2. Fed Rate Cut Bets for 2026 (Have Plunged)!



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