



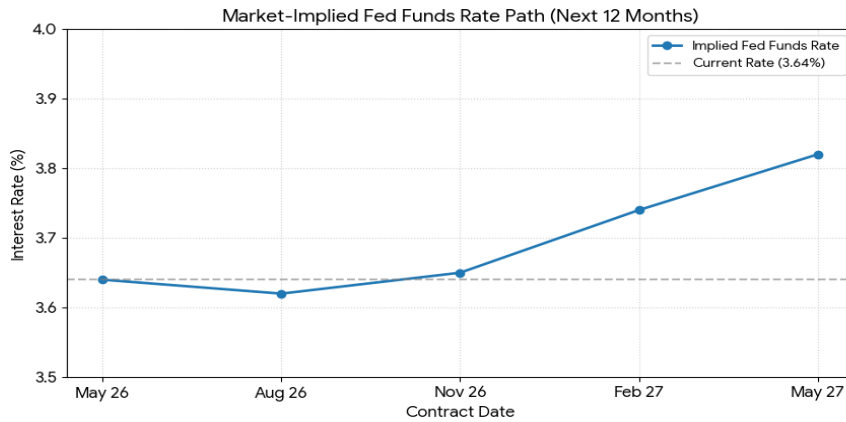
Lenders and Borrowers Take Note – The Current Easing Cycle is Over

1. Why The Fed is Done Cutting Rates

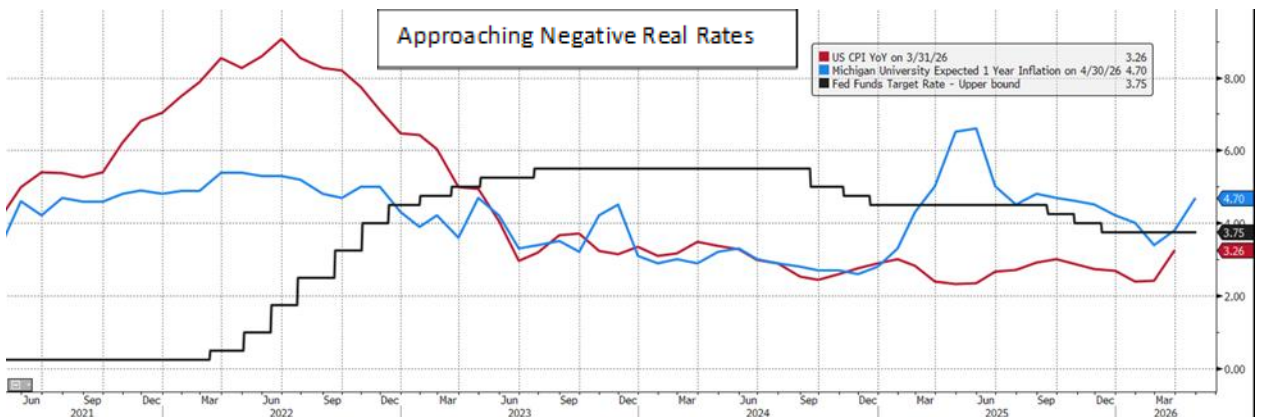
We believe that there are three main reasons that the Federal Reserve has reached the end of its cutting cycle – barring a recession.

First, in the last Federal Reserve meeting held in late April 2026, three regional bank presidents favored changing the committee’s bias “to holding rate steady” from “easing bias.”

Second, the market is currently pricing zero rate cuts for the next 12 months as shown in the graph below - the market expectation is for a rate hike.



Third, real interest rates (nominal interest rates adjusted for inflation) are already falling without the Fed taking any action because inflation is rising and is well above the Fed’s target. Real and not nominal rates are determinative of monetary policy. Recall that recently when inflation reached 9.0%, the Fed was forced to raise interest rates to keep real interest rates above zero. Below is a graph showing that current inflation (red line) and short-term inflation expectation (blue line) are approaching the Fed Funds rate (black line).





2. Additional Inflation is Coming

De-globalization and tariffs are inflationary and will continue to put pressure on prices. Regardless of the outcome of the current Iran war, oil and other resource prices will remain elevated for the intermediate future. This additional layer of global and US inflation will prevent the Fed from lowering interest rates. While energy costs are likely to eventually retreat, these developments are sure to trigger structural changes in wages, production costs, and consumer behavior that will be felt for years.

3. Debunking Specious Arguments

One incorrect argument is that because of the high national debt, the US Treasury cannot afford to service the debt with higher interest rates and to lower servicing costs the Federal Reserve will be forced to lower rates. The math and previous experience debunks this notion. First, the market will ultimately set the cost of the debt and not the Federal Reserve (which directly controls only short-term rates). Creditors will seek equilibrium pricing of US debt based on perceived risks, and the Federal Reserve cannot magically lower the cost of sovereign obligations. To the contrary, lowering interest rates generally leads to increased inflation expectations, and higher debt premiums. Second, mathematically, the fastest way for governments to shrink debt is to promote inflation to devalue the debt. To prevent runaway inflation, interest rates must rise. Many countries, including the US, have used inflation this way before. The average inflation rate in the US from 1946 to 1955 increased to 4.2%, reducing the debt/GDP ratio by almost 40% within a decade.

4. How Borrowers and Lenders Should React

As banks brace for a rise in funding costs, now is a dangerous time for lenders to add three to five-year fixed rate loans on their balance sheet.

Borrowers should no longer expect to refinance in the foreseeable future at lower rates. Inflation has not glided to 2.0% and has started to climb. Borrowers should choose loan structures that fit their business model without expectations of interest rate relief in 2026 or 2027.

The ARC Team can help you evaluate the optimal financing structure for your client's specific profile. Reach out to discuss tailored strategies that balance rate risk, business needs, and long-term financial flexibility.