



Credit Jitters Seem Overblown, But Fed Cut Nears

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More headlines around private credit problems aren't a sign of systemwide danger; big banks' earnings were standouts and strong, and public markets look increasingly attractive as investors rethink opaque lending structures. Spreads will widen in pockets, and some subprime segments will struggle, but this is a recalibration in credit—not a replay of 2008.

The 10-year Treasury briefly tested 4% and slipped just below, exactly what you'd expect when credit jitters boost demand for safe collateral. Real yields eased as well, consistent with a modest risk-off bid. Treasuries remain the cleanest hedge when credit fears pop, and that relationship asserted itself again last week.

With this backdrop, I expect the Fed to cut 25 basis points on October 29. Chair Powell didn't push back on easing in his speech last week, and the incremental credit stress only strengthens the case. A 50-basis-point move is less likely, but if cracks deepen or spending surveys roll over more sharply, one or two voices could argue for 50. My base path: 25 now, followed by a cut in December and a couple of additional quarter-point cuts over the next few meetings as the committee validates cooling pressures while keeping optionality if growth stabilizes.

This Friday's inflation print will be welcome after limited data flow with the government shutdown, but it won't be the deciding factor—policy is already down to a 25 vs. 50 discussion, and a tariff-related bump in inflation prints wouldn't change the calculus.

Politics and geopolitics remain background noise for markets compared to bread-and-butter economics—prices paid and job security. That's where many households still feel stretched, especially on the lower end, and it shows up in rising delinquencies in subprime-adjacent categories.

But the tech and AI complex is insulated from these near-term income pressures, and the market's leadership remains intact. I continue to view this as a durable bull market, albeit one that rotates as credit reprices and the Fed moves into an easing cycle. For portfolio positioning, I favor staying overweight equities versus duration-heavy bonds, leaning into quality cash-flow generators in tech and profitable cyclicals that benefit from falling real rates. With private credit under a cloud, listed financials with transparent balance sheets should command a higher relative bid.

On alternatives, the week reinforced a lesson I've emphasized for years: Bitcoin is not yet a reliable short-run diversifier. It traded poorly into recent shocks and continued to disappoint investors looking for a negative-beta hedge. That doesn't preclude attractive long-run prospects for the crypto ecosystem, but in the current regime it hasn't earned the "safety" label. Gold, by contrast, held in better, and some may be speculating on tokenized "digital-gold" and even chatter about gold-backed stable-coin instruments.

I think the shutdown saga is a political loser for the GOP, but markets will key off whether paychecks, travel, or services get disrupted enough to dent sentiment and spending. If those frictions persist into late October, they tilt the argument toward a larger policy response—again, not my base case, but a risk worth watching. For rates, if credit fears fade, the 10-year can drift back toward 4.00%–4.25%; if stress builds, yields can retest the high-3s as the flight to safety reappears.

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Professor Jeremy Siegel is Senior Economist to WisdomTree. This material contains the current research and opinions of Professor Siegel, which are subject to change, and should not be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. The user of this information assumes the entire risk of any use made of the information provided herein. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.