

## Global Fixed Income Team

# Outlook & Strategy

*Markets may be able to celebrate a quiet holiday season.*

## Market Recap & Outlook

We believe markets may be able to celebrate a quiet holiday season. Polymarket has assigned a 95% probability to a 25bp cut at the December Federal Open Market Committee meeting. Currently, the 10-year Treasury yield has barely crossed the 4.0% threshold, settling at 4.07%.

Markets are optimistic about interest rate cuts by the Federal Reserve (Fed). The unemployment rate has leaked higher from a low of 3.4% in 2023 to 4.4% latest (September-delayed). Recent data from ADP, Challenger, and the Fed's own Beige Book also show weak demand from employers. This labor market weakness contrasts unpleasantly with stubborn inflation, cited by rate bears. Headline Consumer Price Index (CPI) is 3.0% year over year (yoy); the Federal Reserve's preferred measure of core personal consumption expenditure prices is at 2.9% yoy and has plateaued for a year and a half. Measured inflation has now exceeded the Fed's target for four consecutive years.

Current financial conditions in the US do not obviously signal that monetary policy is tight, in our view. Equities are near all-time highs, while credit spreads are near all-time lows. Crypto has sold off, but we believe the volatility in these assets may just reflect underlying leverage levels. Bankruptcies are low, and recent headline failures in credit look idiosyncratic rather than systemic, in our view. Given the generally positive outlook for corporate earnings and the forthcoming 2026 fiscal stimulus, we doubt that more than one more Fed cut after December can be justified, unless US economic conditions take a pronounced turn for the worse. We recognize that this is top-down optimism: there is a case for bottom-up pessimism, given rising sub-prime delinquencies and generally dire consumer sentiment surveys, but we think it would need a catalyst to become the prevailing narrative.

In the Eurozone, inflation has been better-behaved, trending near the 2.0% target for the past year. Growth remains sluggish, but most forecasts for most EU countries anticipate a pick-up in 2026. The European Central Bank is expected to stay on hold for the next several meetings.

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**DAVID ROLLEY, CFA**  
Portfolio Manager

In Japan, stubborn inflation, rising wages, and a recent industrial production surge support the more hawkish rhetoric from Bank of Japan. We believe a rate hike could come soon. Global natural resources prices for key Japanese imports are flat to lower, so we do not see significant terms of trade risks for Japan in the near term that might deflect a rate hike.

We see little change in Chinese policy rates, even though consensus forecasts show most activity indicators---GDP, industrial production, retail sales, fixed asset investment, even nominal exports---growing at sub-5% rates in 2026. Money growth is already rising at 7.5%-8.0%, so we are not sure what another small rate cut would do for economic momentum. Our bias is that the Chinese Yuan Renminbi is more likely to rise than fall, however, given strong export receipts and weak domestic demand. Besides, the People's Republic of China seemingly wants to export everything and import as little as possible, which we believe should push up the currency steadily.

## Our Strategy

At risk of repetition, we believe the biggest threat to the USD is a tech/AI bust/setback. As these equities are heavily owned by non-US investors (40% of US equity market cap; 20% of global equity market cap!), a meltdown is likely to drive diversification in every other direction with greater USD hedging, in our view. As a result, we favor non-US fixed income.

## Important Disclosure

### Key Risks:

*Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Non-US Securities Risk, Currency Risk, Derivatives Risk, Leverage Risk, Counterparty Risk, Prepayment Risk and Extension Risk. Investing involves risk including possible loss of principal.*

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*Market conditions are extremely fluid and change frequently.*

***Diversification does not ensure a profit or guarantee against a loss.***

***Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.***

***There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.***

***Past market experience is no guarantee of future results.***

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## About the Team

Our strength is rooted in decades of honing our research and investment processes to consistently navigate ever-changing global markets.

1986

Global Bond Portfolio Established

90

Institutional Accounts & Commingled Vehicles

\$31.3

Team Assets Under Management\*  
(Billion USD)

*As of 9/30/2025.*