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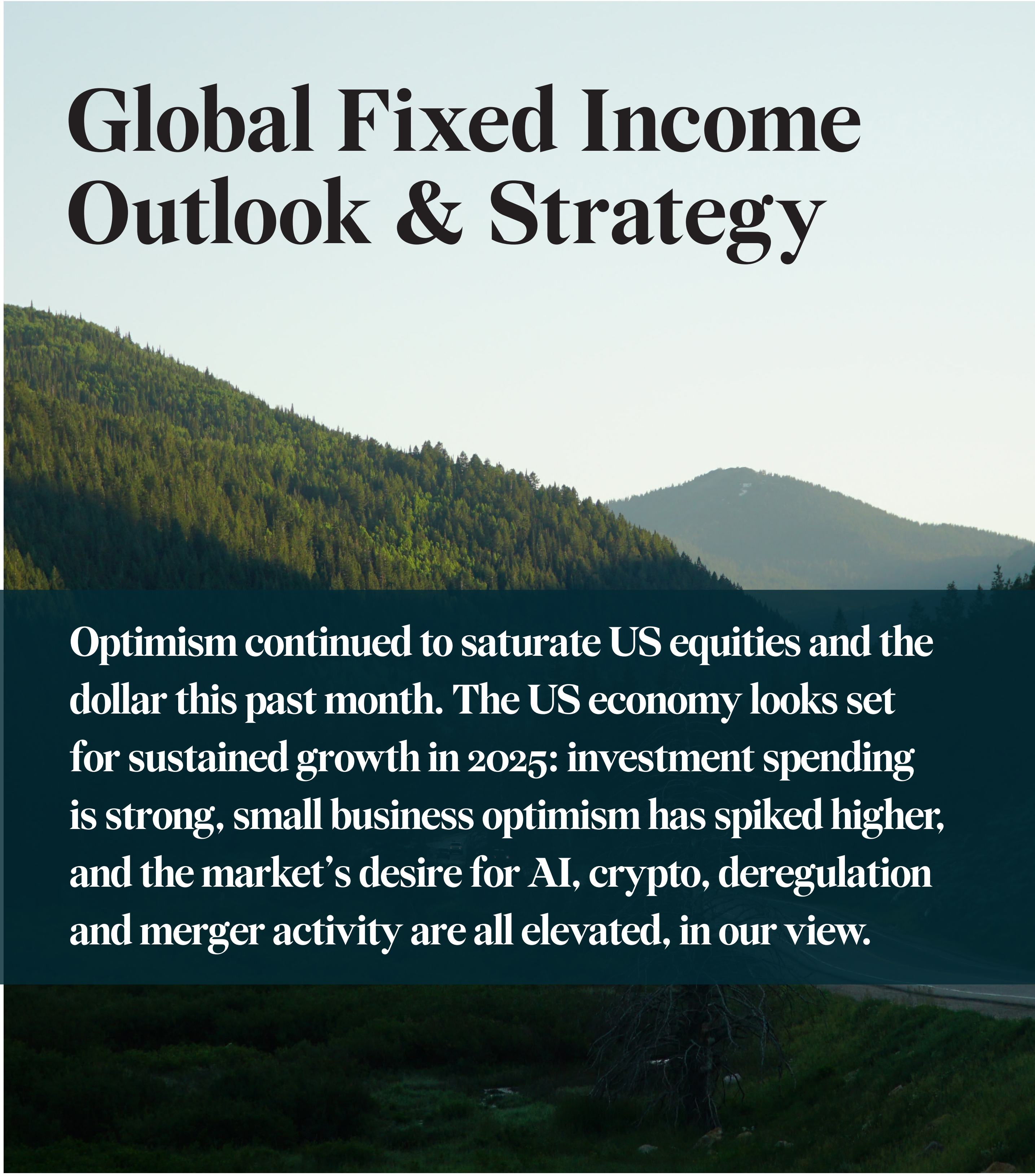
# Global Fixed Income Outlook & Strategy



**Optimism continued to saturate US equities and the dollar this past month. The US economy looks set for sustained growth in 2025: investment spending is strong, small business optimism has spiked higher, and the market's desire for AI, crypto, deregulation and merger activity are all elevated, in our view.**

# Market Recap & Outlook

There are economic concerns of a potential trade war, and in our view, the risk markets appear to be complacent. We expect multiple tariff hikes, mostly vs China, to be announced early in the Trump administration. Chinese sentiment is relatively un-concerned, as the Trump hikes during the first administration did little damage to Chinese growth. While some $50bn in exports were directly impacted, these were easily shifted and sold in third country markets. Since then, Chinese global trade shares have risen, and the relative share of global manufacturing in China has hit new highs. China dominates the global battery, solar, and EV markets. We see recent policy statements pointing to easier Chinese monetary and fiscal policy as precautionary indications that any growth-inhibiting effects of US tariffs will be offset by stimulative policy. Together with the need to monetize old debts in local government, real estate, etc., we see a weaker Chinese Yuan Renminbi (CNY) as the near term trend of least resistance.

The incoming Treasury Secretary, Scott Bessent, has suggested that tariff headlines will be part of a campaign of "escalation to de-escalate", but we have no idea how or whether this will work. Our guess is that average US tariffs are headed higher, possibly in stages, over the next couple of years, and these costs will have to be absorbed by US consumers somehow.

Mr. Bessent has also spoken of his 3/3/3 goals, by which he means a target of 3% US real GDP growth, a 3% of GDP federal budget deficit, and 3mmbd of new oil output. Taking this last target first, we are skeptical that oil output will grow much, as oil companies all talk sternly of capital discipline. We are very optimistic, however, about natural gas. US LNG export capacity looks set to more than double. This will go a long way towards Mr. Bessent's goal in oil equivalent terms, but the focus will be methane.

We believe one possible support for the 3% growth and deficit targets is a rise in US productivity. The pandemic has had an effect upon trend identification. There has been a tentative rise in US productivity recently, which may be amplified by deportation-driven pressure on labor supply, and supply-side AI benefits. We believe a good way to stabilize the debt to GDP ratio is to grow the denominator. This seems to be the strategy of the incoming US White House administration, in our view.

# Our Strategy

In sum, the US markets are responding to the second Trump administration with optimism, while the Chinese government is cautious but relatively confident as well. We view the big policy hurdle to be in Europe, where France, and soon Germany will have to find a way to construct an effective government. Until a parliamentary deal is reached in Paris, and a new government is in place in Berlin, we expect Eurozone policy-making to be paralyzed, and a Euro underweight appears to be reasonable.

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# Important Disclosures

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