



Global Fixed Income Outlook & Strategy

Politics took center stage for global bond markets this month as India, South Africa, Mexico and the European Parliament went to the polls.



Market Recap & Outlook

Currencies weakened and local bonds widened in South Africa and the EU as incumbent governments were weakened, and in Mexico because the government was strengthened by too much.

The largest election, in India, was the least volatile for markets. India equities briefly sold off in shock as Prime Minister, Narendra Modi's Bharatiya Janata Party massively underperformed by what was predicted, but he will remain PM in a coalition government for a third term. Equities quickly recovered, and INR bond yields are now lower than one month ago.

In South Africa, the ANC lost its parliamentary majority and will also need to govern in coalition. The Rand was volatile, but has lately gained, as a coalition with the most populist/anti-market parties seems less likely, in our view. Bond prices are also higher.

In Mexico, the ruling Morena party did too well for market comfort. Claudia Sheinbaum will be the next President, but may govern with super-majorities in both houses of Congress. This alarms some market participants, as it could make populist measures more likely. The peso and local bonds remain weaker. Mexico was a popular position in crossover portfolios, so there has likely been some selling pressure.

France will have new elections for Parliament after the populist right wing parties did better than expected in the EU parliamentary elections this past weekend. This is a gamble to head off populist political momentum in France. It may lead to a Parliament in opposition to the Macron Presidency. French spreads to Bunds have widened, as have most other smaller EU markets in sympathy with the OAT selloff.

The United Kingdom is also going to the polls, on July 4, no less, but markets do not seem to care. Sterling-Dollar has been serene. We believe this may be because Labor is so far ahead in the polls that there is little uncertainty about the outcome.

The USD has generally benefitted from all of this political news, particularly against the Euro, breaking decisively below 1.08. Adding to the luster of the American currency was another unexpectedly strong payroll employment release, which showed a gain of 272,000 jobs. Monthly economic data has been both strong and weak, and has essentially played ping-pong with ten-year yields.

Our Strategy

We are left with a range-bound prospect for near-term US Treasuries, while still expecting two Federal Reserve cuts beginning in September. We still believe that recent US inflation pressures will subside sufficiently to permit yields to end the year somewhat lower than current levels. This may or may not lead to a weaker USD, depending on whether overseas markets continue to spook traders and their algorithms.

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