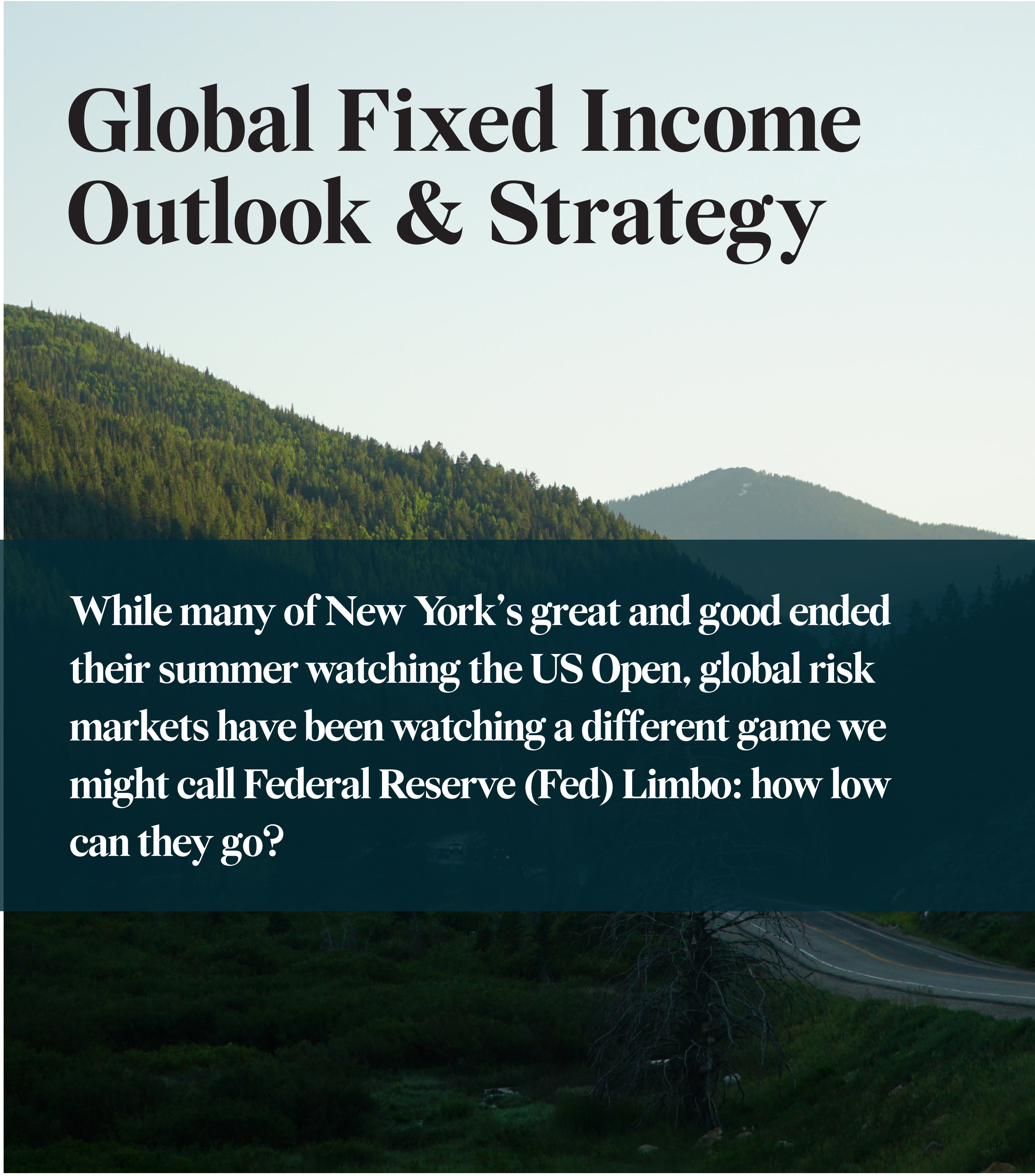
# Global Fixed Income Outlook & Strategy



**While many of New York's great and good ended their summer watching the US Open, global risk markets have been watching a different game we might call Federal Reserve (Fed) Limbo: how low can they go?**

# Market Recap & Outlook

In the Secured Overnight Financing Rate (SOFR) futures markets, this guess on future policy rates has steadily declined since late May, to just under 3.0% by the end of 2025. As this outlook for future policy has grown easier, so the yields on Treasuries and the DXY dollar index have declined in tandem. At 3.65%, the ten-year Treasury is approaching the 3.5% yield we would expect to be in line with the policy futures.

Market expectations now look aligned with the Fed's own June Statement of Economic Projections, which sees real GDP avoiding recession, running at a pace of about 1.8% per year through 2025, as PCE and core PCE gently drift lower towards 2.0%. This seems consistent with the policy easing cycle the market is now pricing, as the debate is not whether the Fed will cut at its September meeting, but by how much. Loomis Research expects the policy rate to be 75bp lower by the end of 2024, with more cuts to come next year.

Fiscal policy prospects are playing no role in the current US bond rally. The Presidential election remains too close to call, in our view, and neither candidate has expressed any interest in a smaller deficit. On current policy settings, the nominal deficit will persist near 6% of GDP. The debt-to-GDP stock, currently about 100% net of government trust fund holdings, will climb at about 2% per year continuously, in our view. Duration supply thus seems assured, but duration demand may be more unpredictable. One aid for the market will be the looming end of quantitative tightening (QT), as maintaining QT seems contradictory to the interest rate cuts we expect.

The US dollar might weaken faster if there were much going on in the other major economies, in our view. Europe remains growth-challenged, and the European Central Bank (ECB) is widely expected to cuts rates next week. China is struggling with weak domestic demand and talk of deflation. Even Japan, of which we expected better things, is going through a weak patch. Only in selected emerging markets such as India and Indonesia are we seeing buoyant economic activity.

# Our Strategy

We therefore see a fixed income world of improving inflation, policy rate cuts, and a gradually steepening yield curve. This would normally imply a weaker dollar but this descent may be irregular given economic weakness and falling rates abroad (ex-Japan). Credit spreads remain tight relative to the risks of revenue and earnings disappointments in the slow growth world we expect.

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