



# Global Fixed Income Outlook & Strategy

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## Market Recap & Outlook

The DXY US dollar trade-weighted index seems to be suffering from summer-time sadness, range-bound near its lows for the year. One popular market theory for a renewed dollar bull market was the prospect of greater distress elsewhere. Nope. Last week, both France and Japan lost their Prime Ministers, but currency markets did not care. The US dollar has remained soft.

The US dollar sentiment has been hemmed in by the tug-of-war between US technology and equity optimism versus broader macro pessimism. At 4.06%, the ten-year US Treasury yield seems to be taking its cues from the pessimists. US macro is looking distinctly stagflationary, in our view. The market consensus real GDP outlook is for sub-2% real growth, while inflation expectations for the next two years are hardening around 3%. The expected real growth rate is lower than the expected inflation rate. Growth pessimists can point to a chain of weak payroll employment releases capped today by a stiff 911,000 benchmark down-revision of the payroll level. New job growth now looks stagnant, in our view. The optimists can point to an AI data center boom and anecdotal stories of productivity improvements. Perhaps both will be right, and productivity will accelerate with a static labor force, in our view.

Front-end yields have fully priced a policy interest rate cut at the next Federal Reserve meeting on September 16-17. This, along with the recent labor market weakness, has pulled the ten-year yield back to the bottom of its own trading range. We believe the currency markets seem more intent on trading US interest rate cuts than on trading French fiscal gridlock.

US Treasuries are by no means the only range-bound market. Eurozone policy rates are expected to hold at current levels, as inflation is near target, though growth has remained meagre. Euro bond markets look fairly priced, in our view.

Japan may edge back to more stimulus under a new Prime Minister, but we now see value at the long end with Japanese Government Bonds 30-year yields above 3.0% for the first

time in decades. Domestic demand in China has remained weak, but exports are booming to non-US markets, possibly implying future gains for Chinese Yuan, in our view. Chinese Government Bonds are another range-bound bond market.

## Our Strategy

Short-end US interest rate policy may dominate forex sentiment for the moment, but we see possible future White House control of the Federal Open Market Committee as more important in the medium term. Fiscal dominance of US monetary policy would threaten Federal Reserve policy autonomy, and future inflation expectations, in our view. With most overseas investors seemingly still overweight US assets, we remain USD bears.

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