

Global Fixed Income Team

Outlook & Strategy

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Market Recap & Outlook

Volatility, JPM's Jan Loey's once wrote, is "leverage times surprise". January and early February brought many surprises, some ominous, some tragic, some potentially business transformational (Greenland annexation threats, ICE, the Kevin Warsh Federal Reserve Chairman nomination, nomination, Japan intervention threats, Anthropic AI agent innovations). Volatility spiked in markets ranging from precious metals to equities to currencies to Bitcoin. Leverage was discovered. Amid the disruption, both US Treasury yields and investment grade credit spreads were characterized by persistent low volatility. VIX vaulted, but MOVE was unmoved. Fortunately, it appears Greenland will not be invaded. And ICE engagement protocols will change. Risk sentiment seems to have survived intact.

A key investor theme seems to be rotation among equities. Mag 7 mega-caps will be spending a lot on capital expenditure: the announced \$650bn from just four companies is 2% of US GDP. This may be bad news for Mag 7 free cash flow but good news for chip suppliers and GDP growth. More broadly, the profit outlook appears to be improving for the other 493 members of the S&P, omitting, of course, software companies whose business may be challenged by competition from innovative AI agents. This threat seems more of a problem for private credit and BDCs than the broader public bond market.

US GDP growth forecasts have edged up to a consensus 2.5% for 2026, while core CPI is running at 2.6% year-over-year for the most recent 12 months. Tariff inflation effects seem to have peaked, and inflation may drift lower, given muted wage growth and softening apartment rental inflation, in our view. Core PCE inflation falling below 2.5% should permit one more Federal Reserve (Fed) interest rate cut by mid-year. The K-shaped characterization of US growth has been reinforced by strong profit reports in tandem with weaker job openings and higher layoffs in the January JOLTS and Challenger data.



DAVID ROLLEY, CFA
Portfolio Manager

A Warsh Fed chairmanship is largely seen as a steady hand. Warsh has a reputation as a quantitative easing skeptic and an inflation hawk. Talk of a new Treasury-Fed accord, however, is mysterious. We suspect that one can square the circle by noting that Warsh wants the Fed to hold less duration on its balance sheet, while US Treasury Secretary Scott Bessent wants to issue more bills. This may lead to a federal government debt stock that is shorter-term, hence debt service costs would be more vulnerable to policy rate hikes, in our view. That is a problem for the future that may never arrive if AI boosts productivity enough. For now, Treasury markets seem unconcerned.

Sanae Takaichi became Prime Minister of Japan in a landslide victory for the Liberal Democratic Party (LDP) in weekend elections, and Japanese equities have celebrated. Selloffs in Japanese Government Bonds have been muted and the yen is stronger. We suspect that bullish equity sentiment may exceed bearish bond sentiment and look for a somewhat firmer yen over time. The current account exceeds 4% of GDP, the economy is expected to accelerate, and the consensus forecast for the government deficit is for 3%-4% of GDP even accounting for promised LDP stimulus.

Our Strategy

There has been no "Sell America" wave out of US equities, but we remain USD bearish. Global growth looks to be reviving, and the non-US opportunity set is large. We continue to expect global investors to adopt a broader and more diversified asset allocation over time. If so, gradual pressure on the US dollar is likely to persist.

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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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

\$38.6

Team Assets Under Management* (Billion USD)

As of 12/31/2025.