Video Transcript: Global Macro Webcast – 2Q 2024
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Q: What Is the Outlook for Bond and Currency Markets for the Rest of the Year?

The macroeconomic backdrop is becoming increasingly favorable for G10 bond markets after a difficult start to the year. Hot U.S. inflation prints in the first quarter raised doubts about the Federal Reserve's (Fed's) ability to cut rates in 2024. But the more recent data show a resumption of the disinflationary trend. Meanwhile, growth in the U.S. has slowed in the first half of 2024 and we expect further weakness as the economy adjusts to high interest rates and reduced fiscal support.

Overall, we expect slower nominal gross domestic product (GDP) growth across G10 economies. In slowdown, this will enable central banks to lower policy rates from restrictive levels, supporting bond market returns. In theory, moderation of U.S. growth together with a less restrictive Fed policy should also be negative for the U.S. dollar.

However, market outlook is clouded by high policy uncertainty ahead of the U.S. election. And in the coming months, market fluctuations will become increasingly driven by opinion poll shifts.

Q: Can You Elaborate Further on Investment Consequences of the U.S. Election?

Our biggest concern regarding the upcoming U.S. election is trade policy. Former President Trump has proposed a 60% tariff on imports from China and a 10% tariff on imports from other countries. The U.S. effective tariff rate would reach its highest level since the Great Depression if this proposal were implemented. Even if half of the proposal is implemented, 70 years of U.S. trade liberalization will be reversed.

To what extent these proposals are a negotiation tactic is unclear. But it's clear that Trump believes tariffs are an effective policy tool that can reduce the U.S. trade deficit, raise government revenue, and create manufacturing jobs.

The introduction of broad-based import tariffs would result in a one-time increase in prices but would have a relatively limited impact on medium term inflation. At the same time, we would expect a large negative shock to global growth. Ultimately, we expect large tariff increases to lead to lower bond yields, with negative growth impact of tariffs being far larger than short-term inflationary impact.

Q: How Do You Balance Economic Fundamentals with Political Risks?

We are focusing on positions that stand to gain from the medium-term economic outlook and are less likely to be impacted by the U.S. election outcome. We think that U.S. and

U.K. bonds can perform well over next 6 to 9 months, regardless of the election outcome. We believe that any bond market sell-off resulting from a Republican clean sweep in November would be short-lived. The extension of Trump's 2017 tax cuts is already expected by investors. It's unlikely that we will see significant net easing of fiscal policy, especially if broad-based import tariffs are imposed.

The outlook for currency markets is more complex. On one hand, the U.S. dollar is expensive across a range of valuation measures. The U.S. economy is slowing and maybe to some extent, converging with other developed market economies. And the Fed is about to cut interest rates. These factors would argue in favor of being short the dollar. On the other hand, Trump's election victory could lead to a stronger U.S. dollar on the back of tariff fears. Overall, we have less conviction in the short dollar view in part due to the uncertainty related to the U.S. election.