LOOMIS SAYLES TEAM VIEWS
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Global Fixed Income Team

Outlook & Strategy

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Market Recap & Outlook

The US dollar is sitting pretty at the moment, heavily overweighted in CTA positioning surveys. As the new Gulf War has ebbed, world oil prices have dropped back from $100 per barrel to about $70 per barrel. This is good news for global growth and inflation risks and therefore global equities, yet has not been a negative for oil exporters such as the US. Instead, we believe that FX markets are responding to capital flows rather than terms of trade, and here the greenback has benefitted from a more hawkish assessment of near-term monetary policy as well as global equity investors attracted to the AI story.

The USD may be an AI fashion victim. US economic prospects are currently dominated by AI: equity wealth effects are holding up high end consumption while most capital spending growth is in data warehouses, chips, GPUs, TPUs, CPUs, etc, and the utility infrastructure needed to supply the electrons. Added to this, short-term US interest rates have been elevated by US economic strength and greater perceived Federal Reserve hawkishness.

A positive USD-US equity correlation is something of a novelty, as in the past the dollar has often benefited when global risk appetite declined. Deutsche Bank recently noted that debt flows mattered more for the US in the past, but equity flows have begun to dominate. Correlations can change if the flows change. We agree that an AI equity bear market is the most obvious USD downside risk, given the degree of foreign participation in US stocks.

Our Strategy

If there is an un-dollar it may be the Japanese yen. The yen is near its 40-year low against the USD, and speculative positioning seems to be max short. In Japan the story is not about equities but about debt. Specifically, the Japanese Government Bond (JGB) market is nervous that Prime Minister Takaichi is willing to accelerate spending, notably on defense, and is looking to a higher trend in nominal GDP to shrink the debt to GDP ratio. Ten-year JGB yields are approaching German levels. If they approach US levels, maybe buyers will emerge? We think the long end already offers value here, as a doubling of the Japanese deficit from 1.4% to 3.0% of GDP would leave it at one half of the 6% US deficit. A 3% deficit is Secretary Bessent's fantasy target. Japan also has a current account surplus and stable inflation of about 2.0%. We believe there is a meaningful yen rally out there somewhere, sometime.

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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There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Past market experience is no guarantee of future results.

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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
80+	Institutional Accounts & Commingled Vehicles
$38.2	Team Assets Under Management (Billion USD)

As of 6/30/2026

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