LOOMIS SAYLES TEAM VIEWS
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Global Fixed Income Team

Outlook & Strategy

A coordinated intervention by the Bank of Japan and the US Treasury

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Market Recap & Outlook

When we mused about a yen rally last month, we were not anticipating an imminent $50bn-plus coordinated intervention by the Bank of Japan and the US Treasury, but that is what occurred on July 30, 2026. Several tactical innovations are interesting. Japan did not sell their US Treasuries to raise cash for the intervention; they swapped them, thereby limiting immediate supply pressure on US Treasury yields. Also, the US Treasury sold EUR to buy Japanese Yen (JPY). Apparently, they may not have informed the European Central Bank (ECB) that they were going to do this. Oh, well. The yen is stronger, and two-year Japanese Government Bonds (JGB) yields are 12bp higher, in line with increased expectations for a September policy hike to 1.25%, which we think is overdue.

US Treasuries were apparently unimpressed by the swap, and 10s are trading near their yield highs for the year at about 4.7%. The long end also shrugged off a very weak payroll report for July. Are the bond vigilantes back? The rise has been in the real yield and the term premium. In our view, the problem for US Treasuries is not really inflation, it is the structural deficit outlook, driven by debt service, demographics and defense. Maybe AI finance is crowding out Treasuries. Monthly headline inflation data could be worse. Core PCE, the Fed's preferred inflation metric, is a too-high 3.3% year-over year (yoy), but core CPI is only 2.6% yoy while average private hourly earnings are running at 3.2%, in line with the pre-Covid trend. As both tariff and oil effects on prices are expected to be one-off, i.e., transitory shocks, the expectations by the SOFR futures markets of policy hikes late this year or in early 2027 seem overly bearish. Also, the US Treasury has been shifting its funding to shorter maturities, so the Bessent-Warsh aversion to a hike may be high, in our view. We note that most economic forecasters, in contrast to the futures markets, expect the next move in policy interest rates to be a cut in 2027.

The trade-weighted dollar has been softer, and not only on its yen axis. We are not sure why, save for the negative tone in US Treasuries. The S&P 500 set a new high in early August, while optimism about a new truce in the Gulf War has ebbed. Both would normally be locally USD-supportive, in our view. (Tanker transits through the strait of Hormuz are running at just a fraction of pre-conflict rates. We expect oil prices to move higher in the short term.) One other source of unease may be the investment grade corporate market, which seems to be having a bit of data warehouse supply indigestion, in our view. Some AI finance now yields 7%, up from about 5.5% a month ago, with more issuance to come.

Our Strategy

We continue to believe that a re-rating of AI future profitability is the USD's biggest risk. We believe that an AI equity/bond bust, followed by negative wealth effects and probable Fed cuts, would likely send the USD materially lower as overseas investors chose to sell/hedge their bonds and equities in the space, interest rate cuts erode the USD carry advantage and if deficit worries increased as the US economy came to a sudden stop.

Sources: Bloomberg, July 31, 2026.

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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