Global Macro Outlook and Strategy

Global Rates, Commodities, Currencies and Emerging Markets

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Overall summary

US Rates

- Another strong month of job growth could lower the bar for markets to price in further tightening, and we see risks markets could price in more tightening over the next year. Intermediate Treasuries have underpriced this risk: 10-year yields are trading 27bp below their model-implied fair value, leaving the risks skewed toward higher yields over the medium term. We remain patient before entering outright duration shorts, as quarter-end rebalancing dynamics leave room for yields to decline near-term given equities' outperformance versus fixed income. Maintain 10s/30s flatteners as a low-beta way to position for higher yields with a relative value overlay. Stay short 10-year Treasuries versus Bunds.

International Rates

- DM yields extended the post US-Iran MoU rally this week as declines in energy prices are easing inflation concerns, although US rates continued to underperform after the recent hawkish Fed shift. We continue to think that European yields are likely to remain range-bound. We expect carry to be a key theme for the coming months amid a backdrop of moderating volatility and usually lighter market activity through the summer.

Currencies

- We transitioned from "Bullish beta, bearish USD" to "Bullish beta, bullish USD" in March; hold this view in H2. EUR/USD downside target revised down to 1.10; USD/JPY 164, USD/CNY 6.70 both unchanged. The baseline view is low-intensity (USD index +3%), but with recognition that the onset of a Fed hiking cycle usually coincides with trend USD strength ~ 5%. Carry is a gift that keeps on giving, remains an "AI proxy" and has been a more consistent generator of returns than the dollar; stay bullish in 2H. Conditions are looking better on margin for the "Bullish beta" leg of the view for now. The "bullish dollar" leg could take a breather following the US employment report, but the data is still firm enough to prevent a substantial weakening.

Commodities

- Our base case remains that Chinese oil demand will ultimately return to the market with a decline by 600 kbd in 2026, before rebounding by 800 kbd in 2027. For the week of June 22, Qatar Energy's operation looks broadly stable with about four LNG cargoes loaded over the week, implying a 20% utilization on a 7-DMA.
- We believe the Fed will end up remaining more patient this year, warding off sustained further significant downside for gold from current levels and allowing for a recovery higher over 2H26. A reduced demand forecasts point towards an overall more range-bound base case gold outlook in the near-term with prices averaging $4,300/oz in 3Q26 and $4,500/oz in 4Q26.

Emerging Markets

- Resilient cyclical backdrop, low fundamental vulnerabilities and the proactive stance of several EM central banks to allow for continued carry outperformance even as higher inflation and a likely hawkish shift by the Fed could challenge the asset class.
- We remain OW in EM FX in higher yielders and currencies where central banks are ready to hike and also favor frontier FX. Elsewhere, we note that valuations do not offer a clear risk reward amid elevated risks and we stay MW rates, sovereign and corporate credit.