

Macro Talking Points

Fixed Income Insights

Week of 28 April 2025

Author



Benoit Anne
Senior Managing Director
Strategy and Insights Group

In brief

- **The US dollar may be down, but it's not out**
- **The IMF view on the global economy**
- **US asset performance has been taxed by the tariffs**
- **Goldilocks is still alive in the world of global fixed income**

The other TINA. A few years ago, “there is no alternative” to equities, or TINA, was a market narrative at a time when you needed a microscope to spot fixed income yields. But times have changed dramatically. Today, there is another TINA: There is no alternative to the US dollar as the dominant reserve currency. The dollar may be down, but it's not out. Can the dollar share of global reserves go down over time? Yes, and in fact it has. According to the latest IMF data, the USD accounts for about 58% of global official reserves, down from about 70% 20 years ago.¹ However, there is very little competition. The euro is a distant second, with a share of about 20% of official reserves, followed by the Japanese yen with 5.8% of the total. It is likely that the US dollar's share will continue to decline in the period ahead, but this is going to be a very slow, gradual process. The main obstacle to potential competitors is simply market size and liquidity. Whatever your view is on US Treasuries these days, the reality is that it is more than ten times bigger than the German bund market. In terms of average daily volume, a useful measure of liquidity, the US Treasury market's liquidity is 30 times as large as its European peer.² In other words, the US Treasury market is here to stay as a critical investment vehicle. Does that mean that US Treasuries are a safe haven? No, it does not. There will be times when the value of US Treasuries will go down, depending on macro and cyclical factors. That principle also holds true for the US dollar. Over the years, we have seen strong dollar cycles and weak dollar cycles, while the share of the USD in global reserves has consistently, albeit gradually, trended down. In other words, the tactical view on the US dollar and the dollar's status in the international financial system as the predominant reserve currency are two separate topics. So, let's not panic about the demise of the US dollar. At the same time, the current macro drivers are not dollar supportive, which means that the tactical risks to the dollar are skewed to the downside.

The global view from Washington. These days when one mentions Washington, DC, people tend to think about the White House. This is understandable. But Washington is also home to the IMF and the World Bank, which conducted their Spring meetings last week, and the news that came out of this high-level summit was not particularly good. The IMF substantially downgraded the outlook for global growth, mainly reflecting the surge in policy uncertainty and increasing trade tensions. Under the IMF's baseline scenario, which incorporates the impact of the US tariff announcement on April 2, global growth would slow to 2.8% this year to its slowest pace since 2009 — excluding the 2020 COVID shock.³ In terms of global winners and losers, the IMF projections, as illustrated in their latest World Economic Outlook, point to both the US and China

being in the losing camp. Growth in the US is projected by the IMF to slow to 1.8% in 2025 from 2.8% last year, a substantial deceleration, while China's growth would slow to 4% from 5%. Within emerging markets, the IMF expects a major growth slowdown in Mexico, Brazil and emerging Asia. In contrast, the eurozone would fare relatively better, with growth prospects for 2025 broadly stable from the year prior. Likewise, other major countries such as Japan, India and Canada appear to be little impacted, on balance. Beyond policy uncertainty, the IMF underscores the tightening of financial conditions as a major source of downside risks, although it stops short of predicting a global recession. If anything, Market Insights is of the view that the IMF forecasts may represent the worst-case scenario, especially if we observe further easing of trade tensions in the period ahead. In any case, the global market outlook is likely to remain characterized by elevated macro volatility, which warrants a robust investment process, strong risk management and an active approach to investing.

Our tariffs and our asset performance problem. In the early 1970s, a former US Treasury Secretary famously said to his international counterparts that the dollar is our currency, but it's your problem. So far, it has not worked out that way for US assets. Since the US tariff announcement in early April, US fixed income assets have underperformed their peers despite staging a pretty healthy performance bounce over the past couple of weeks. For instance, US investment grade is still down by 0.53% since April 1, while the European investment grade index has returned a positive 0.89% during the same period (in EUR terms).⁴ The divergence is even more striking when factoring the sharp currency move, with the EUR gaining over 5% against the USD since Liberation Day.⁵ Likewise, US high yield is virtually back to flat since April 1, but European high yield has done better during that time. Finally, in the government bond universe, the performance gap is substantial. The US Treasury index is still down by 0.23% since April 1, while in contrast, the bund index has gained 1.61% (in EUR).⁶ Overall, the place to look for strong performance in fixed income is the global indices. The global Agg, the global government and global credit indices all have posted superior performance since Liberation Day. This is likely because of the investor perception that, from a macro standpoint, the US will bear the brunt of the tariff shock. With that in mind, going global appears to be an effective defensive strategy these days, with the benefits of geographical diversification, as well as relative value opportunities on the duration and currency fronts.

Goldilocks is alive. We have all forgotten about Goldilocks lately, but there is a case to be made that European fixed income is still enjoying a Goldilocks backdrop and the ECB plays a big part in that story. Our Head of DM Rates Strategy, Peter Goves, now believes that the ECB terminal rate could be much lower than initially thought, which represents a major tailwind for European duration and for credit. More importantly, the downside risk to the ECB policy rate is not fully priced in. Looking at the macro backdrop for the region, it is the definition of Goldilocks: not so cold that we are concerned about a potential recession, and not so hot that the ECB would suspend its aggressive easing bias. At 108 basis points for EUR IG spreads, the valuation has also improved substantially.⁷ Overall, Europe remains a top pick on our global fixed income radar. ▲

Endnotes

¹ Sources: IMF, Currency Composition of Official Foreign Exchange Reserves (COFER), December 2024.

² Sources: Bloomberg, Fed. The Federal Reserve Bank of New York. Primary Dealer Daily Avg Trading Volume US Govt Securities, data as of April 16, 2025.

³ Source: IMF, World Economic Outlook, April 2025.

⁴ Source: Bloomberg. US IG = Bloomberg US IG Corporate index. EUR IG = Bloomberg pan-European IG corporate index. Returns are gross and in USD (or EUR for EUR IG). Data as of 25 April 2025.

⁵ Sources: Bloomberg. EUR-USD as of 28 April 2025.

⁶ Source: Bloomberg. US Treasury = Bloomberg US generic Treasury index. Bund = Bloomberg Germany's Bund index. Data as of 25 April 2025. Returns are gross and in USD (or EUR for Bund).

⁷ Source: Bloomberg. EUR IG = Bloomberg pan-European IG corporate index. Data as of 25 April 2025.

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). Bloomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg Indices. Bloomberg neither approves or endorses this material or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

The views expressed herein are those of the MFS Strategy and Insights Group within the MFS distribution unit and may differ from those of MFS portfolio managers and research analysts. These views are subject to change at any time and should not be construed as the Advisor’s investment advice, as securities recommendations, or as an indication of trading intent on behalf of MFS. No forecasts can be guaranteed.

Diversification does not guarantee a profit or protect against a loss. Past performance is no guarantee of future results.

GLOBAL DISCLOSURE

Unless otherwise indicated, logos and product and service names are trademarks of MFS® and its affiliates and may be registered in certain countries.

Distributed by:

U.S. – MFS Institutional Advisors, Inc. (“MFSI”), MFS Investment Management and MFS Fund Distributors, Inc., Member SIPC; **Latin America** – MFS International Ltd.; **Canada** – MFS Investment Management Canada Limited.; **Note to UK and Switzerland readers:** Issued in the UK and Switzerland by MFS International (U.K.) Limited (“MIL UK”), a private limited company registered in England and Wales with the company number 03062718, and authorised and regulated in the conduct of investment business by the UK Financial Conduct Authority. MIL UK, an indirect subsidiary of MFS®, has its registered office at One Carter Lane, London, EC4V 5ER.; **Note to Europe (ex UK and Switzerland) readers:** Issued in Europe by MFS Investment Management (Lux) S.à r.l. (MFS Lux) – authorized under Luxembourg law as a management company for Funds domiciled in Luxembourg and which both provide products and investment services to institutional investors and is registered office is at S.a r.l. 4 Rue Albert Borschette, Luxembourg L-1246. Tel: 352 2826 12800. This material shall not be circulated or distributed to any person other than to professional investors (as permitted by local regulations) and should not be relied upon or distributed to persons where such reliance or distribution would be contrary to local regulation; **Singapore** – MFS International Singapore Pte. Ltd. (CRN 201228809M); **Australia/New Zealand** – MFS International Australia Pty Ltd (“MFS Australia”) (ABN 68 607 579 537) holds an Australian financial services licence number 485343. MFS Australia is regulated by the Australian Securities and Investments Commission.; **Hong Kong** – MFS International (Hong Kong) Limited (“MIL HK”), a private limited company licensed and regulated by the Hong Kong Securities and Futures Commission (the “SFC”). MIL HK is approved to engage in dealing in securities and asset management regulated activities and may provide certain investment services to “professional investors” as defined in the Securities and Futures Ordinance (“SFO”).; **For Professional Investors in China** – MFS Financial Management Consulting (Shanghai) Co., Ltd. 2801-12, 28th Floor, 100 Century Avenue, Shanghai World Financial Center, Shanghai Pilot Free Trade Zone, 200120, China, a Chinese limited liability company registered to provide financial management consulting services.; **Japan** – MFS Investment Management K.K., is registered as a Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No.312, a member of the Investment Trust Association, Japan and the Japan Investment Advisers Association. As fees to be borne by investors vary depending upon circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or document set forth in Article 37-3 of Financial Instruments and Exchange Act carefully before making the investments. **For readers in Saudi Arabia, Kuwait, Oman, and UAE (excluding the DIFC and ADGM). In Qatar strictly for sophisticated investors and high net worth individuals only. In Bahrain, for sophisticated institutions only:** The information contained in this document is intended strictly for professional investors. The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of MFS international U.K. Ltd (“MIL UK”). The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser. Please note that any materials sent by the issuer (MIL UK) have been sent electronically from offshore. **South Africa** – This document, and the information contained is not intended and does not constitute, a public offer of securities in South Africa and accordingly should not be construed as such. This document is not for general circulation to the public in South Africa. This document has not been approved by the Financial Sector Conduct Authority and neither MFS International (U.K.) Limited nor its funds are registered for public sale in South Africa.