Macro Talking Points

Fixed Income Insights

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In brief

- **Ignore the latest US GDP data**
- **The Fed meeting was a non-event**
- **Much lower oil prices and what that may mean for investors**
- **The US just printed its largest trade deficit on record. So what?**

GDP (*i.e.*, Gross Data Perversion). The US printed a negative GDP number for the first quarter. Should we panic? Definitely not. This number should basically be ignored as it did a really poor job at reflecting the fundamental strength of the US economy. Overall, the economy is still showing signs of resilience, as illustrated by robust domestic final sales, the sub-component of GDP that excludes inventories and net exports. On balance, the consumer is still doing fine, and we have yet to observe a meaningful deterioration of corporate fundamentals. Meanwhile, the strong labor report for April has provided reassurance that the job market is still in good shape. Market Insights does not foresee a recession scenario for the US, but it's important to stress that the risks to growth are clearly skewed to the downside since the macro impact of tariffs will likely start biting at some point. In addition, we are operating under an unusually high level of uncertainty, which means that the range of macro outcomes is probably as wide as it has ever been. We believe this macro complexity warrants an active approach to investing, given that the current market backdrop is characterized by high volatility, severe policy uncertainty and global dislocations.

This week's Fed meeting was virtually a non-event. In sharp contrast to recent history, there was not much new at this week's FOMC. This is because, in the view of our chief economist Erik Weisman, the latest macro data has allowed the US Federal Reserve to buy some time, and they took full advantage of that. The Fed's urgency to do nothing — and say virtually nothing — has also been compounded by the severe uncertainty surrounding the macro-outlook, compliments of tariffs. Bigger picture, the Fed is probably still fundamentally dovish, albeit cautiously so, meaning that it would likely prioritize unemployment over inflation if prompted to act, but for now, the central bank is firmly in wait-and-see mode. The door is still open for a rate cut over the next few months, although the timing of the next move is unclear. At this juncture, there are only two Fed cuts priced in over the next six months and after this week's meeting, the probability of a rate cut in June is likely to go down. Moving on to market rates, with the 10-year now trading at about 4.30%, the tactical risks appear to be two-sided.[1] An improvement in investor sentiment may help push rates higher, but at the same time, the risk of the hard data deteriorating will likely put a cap on how high rates can go. Overall, the call on US duration has become a lot more complicated, reflecting diverse and opposing market drivers. As a result, our investment team holds a much higher conviction on being long duration in a number of markets outside the US. In that regard, European fixed income remains well positioned, given the ample policy room for further ECB easing.

The market impact of lower oil prices. As if we needed another piece of evidence that the current market backdrop is characterized by high volatility and serious dislocations, the recent oil price move has caught many by surprise. The West Texas Intermediate (WTI) oil price is now below $60, a level not seen since early 2021.[2] Here are some of the implications. From an inflation perspective, a lower energy cost will help put a cap on headline inflation and should push inflation break-evens lower. On the growth side, lower oil prices should help support the US consumer, given that energy expenses tend to be a big-ticket item. Away from the consumer, the lower oil price will create some winners and losers at the sector and global levels. For instance, it's worth noting that energy is the largest sector of US high yield, with a weight of over 10%, while it is the fifth largest sector for US investment grade, with a weight below 7%.[3] Looking at the global landscape, the sector share of energy in the US high yield index is considerably higher than for European high yield. As a result, if the recent oil price move is sustained, it may cause some performance divergence between the US and Europe. The same observation can be made for the respective IG indices, with the weight of energy being greater in the US relative to Europe, although the gap is smaller. Separately, in emerging markets, the major oil producers may potentially be at risk of an erosion in their credit fundamentals in the event of persistent oil price weakness, whereas the large oil importers — think China, India or even Turkey — likely will enjoy a tailwind in terms of their external accounts. Overall, the oil price move may provide a new alpha generation opportunity, with a robust fundamental analysis and credit selection process being instrumental to navigating the impact of the latest commodity market developments.

The great balancing act. I never thought that we would talk that much about the balance of payments as a market theme, but here we are. I really don't mind since I am a macro account geek. It just so happens that the US just printed its largest trade deficit on record, with the data released for March showing a monthly deficit of $140 billion.[4] If the intent on the part of the US government was to reduce the US trade deficit, it's fair to say that it's currently not going according to plan. Is that a source of concern? It is not. The trade balance is not a relevant indicator when evaluating the economic strength or macro performance of a given country. In fact, the quickest and easiest way to close the trade deficit would be for the US authorities to engineer a catastrophic recession, forcing US consumers to curtail their consumption. The US imports a lot of goods, simply because it can afford to. Foreign investors are perfectly happy — although this later point has become a bit more debatable of late — to buy US assets and hence provide the US with needed external financing. Typically, the stronger the economic growth, the higher the propensity to import. That is not a sign of economic weakness, unless the trade deficit is deemed to be unsustainable, meaning that its financing becomes an issue. That can be an issue for emerging markets countries with limited access to international capital markets and external financing. That is not a problem for the US. Obviously, the March data reflected a lot of idiosyncratic factors, including stockpiling ahead of tariff implementation. But to be clear, when reviewing our macro performance dashboard, the trade deficit is not a first-tier indicator, or even a second-tier one.

Endnotes

1 Bloomberg. 10-year generic US treasury yields. Data as of 7 May 2025.

2 Bloomberg. Generic 1st crude oil futures, West Texas Intermediate. Data as of 6 May 2025.

3 Bloomberg. US HY = Bloomberg US HY index. US IG = Bloomberg IG Corp index. Breakdown by ML level 3 category to get the sector weights. Data as of 5 May 2025.

4 Bloomberg, US census bureau. Data for March 2025.

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