



First analysis of issues or topics that may affect investor portfolios

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## Political headlines catch global markets off guard

### What's moving markets

- Global government bond and equity prices fell sharply overnight. Yields on U.S. 30-year and 10-year Treasuries rose to 4.94% and 4.30%, the highest levels since September 3, 2025. The corresponding price decline was comparatively larger for the 30-year Treasury bond.
- There appeared to be two triggers: Japanese government bonds began the selloff, and the bond market weakness seemed to escalate with U.S.-Europe political tensions over the tariff threats connected to the U.S. bid for control of Greenland.
- Concurrently, the ICE U.S. Dollar Index of the U.S. dollar's exchange value against six major currencies fell by the most since February 4, 2025, especially against the main European currencies (euro, Swedish krona and Swiss franc).<sup>1</sup> The spot price of gold reached a new all-time high of \$4,725.37/ounce.

### Our perspective

- When political headlines clash, it is often difficult to tell which one has greater impact. For perspective, the proposed U.S. tariffs on Europe amount to only \$37 billion per year, and we expect a deal to be reached.
- Thus, higher global government bond yields appear to be the main driver. Japanese Prime Minister Sanae Takaichi has plans to cut taxes and boost spending in a government budget that investors seem unwilling to finance.
- We have seen similar problems in France and even Germany during the past year (though not to this scale of investor pushback). We note that the German 10-year bund yield rose overnight by more than the comparable U.S. Treasury yield, as a sign that investors are scrutinizing budget issues in Europe, as well.
- Our conviction remains that political headlines are very unlikely to change the positive fundamental trends already in place. We believe the global economy is set to grow faster in 2026, especially in the U.S.
- Since April 2025, we have seen repeated tariff threats and counter-threats that ultimately have proven to be the opening bids in negotiations that have brought compromise.

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1. The ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. An index is unmanaged and not available for direct investment.

## Implications for investors

- Today's headlines seem part of negotiations, both between the U.S. and Europe and between the Japanese prime minister and Japan's bond investors.
- While these negotiations may not conclude quickly, we believe our 2026 Outlook theme, "Trendlines over headlines" remains firmly intact.

## What to do now

The trends we see driving returns this year are measured (not aggressive) Federal Reserve (Fed) rate cuts, deregulation, continued corporate technology spending, and significant corporate and individual tax refunds. The first two should combine to lower business costs, while the latter two raise revenue through increased business and household borrowing. We expect these trends to raise U.S. corporate earnings broadly across equity markets. Globally, we see a procyclical upswing underway. Strong, positive signals from shipping and transportation activity, copper outperforming gold, and the S&P 500 Index Industrials and Materials sectors outperforming the more defensive Consumer Staples sector so far this year.

We favor overweighting U.S. large- and mid-cap equities relative to strategic allocations and taking international equity allocations to neutral on market pullbacks. We also reiterate our favorable ratings on S&P 500 Index sectors Industrials, Financials, and Utilities. The Financials sector seems particularly oversold so far in 2026 and attractive for new cash. Realistically, we believe a procyclical bent (tendency to move in same direction as overall economy) should dominate, but we do not expect a straight line higher in equities this year. As this morning's price action demonstrates, there is still room for political headline whiplash, and for investors to ask questions during earnings seasons. We'll still look to take profits when valuations get extended and to rebalance into sectors that look attractive fundamentally and in valuation.

We also reiterate our fixed income guidance to stay underweight in short- and long-term fixed income. In our view, investors in short-term Certificates of Deposit (CDs) and money-market funds should consider that this past June the U.S. Centers for Medicare & Medicaid Services projected average annual health care inflation at 2.5% between 2026 and 2033. Ultra-short rates may only just cover that inflation but may not stretch to cover inflation in other necessities. In the long maturities, some yield volatility is likely, and the duration risk (price sensitivity to interest rate movements) remains material, so we favor new money into investment-grade maturities of 3-7 years, where yields are close to 10-year yields, but with much less duration risk.

On commodities, we still favor precious and industrial metals. Gold could be a useful hedge, if long yields spike higher. We think an allocation of 2%-3% to precious metals could be appropriate for clients of any risk tolerance and investment objective.

Volatility due to policy and corporate earnings uncertainties may continue in coming weeks, which is why we expect our guidance to remain nimble and to treat market pullbacks as opportunities to rebalance funds toward emerging favorites. The goal of rebalancing is to reduce exposure where prices have become the most extended and to recycle the proceeds into potentially better values. In this way, rebalancing seeks to reduce near-term risk and to look for new potential opportunities as we expect the S&P 500 Index to continue trending toward our 2026 year-end target range of 7400-7600, but not in a straight line. The process of rebalancing may be easier to do when one focuses more on the fundamental trendlines than on day-to-day headlines.

## Risks Considerations

***An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.***

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An index is unmanaged and not available for direct investment.

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