

Multi-Asset Strategy Daily

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USD

The UoM survey delivered the worst of two worlds, with sentiment coming much lower than expected (57.9 vs 63 cons) but inflation expectations rising (long-term inflation expectations rose to a 32-year high!). At the same time, risk sentiment was well supported by Senate leader Schumer backing a government funding resolution (this was signed into law over the weekend). USTs bear-flattened as a result, with 10Y yields lingering around 4.30%. Treasury Secretary Bessent didn't seem concerned about the moves seen in US equities lately – he described market corrections as a normal occurrence. This was likely enough to fuel market's recessionary worries overnight. Risk assets that fell overnight, which provided a small bid to USTs overnight.

Today's highlights include the US Empire manufacturing and retail sales (where our US econ team sees room for an upside surprise). We remain attentive to risk sentiment, which will likely continue to be in the driver's seat. **The FOMC on Wed is one of the key events this week.**

EUR

Fitch left France's rating unchanged at AA- NEG, citing that the worrying debt-sustainability profile is a temporary condition. We are still concerned about the credit. Tariffs, a continuation of French pension negotiations (PM Bayrou rejected the opposition's idea of changing the retirement age back to 62) and Moody's review of France can all put the OAT-Bund spread under pressure but, in the near-term, the lack of action from Fitch – whether or not we agree or disagree – will likely provide some relief in the very near-term.

The first round of voting of the CDU/CSU+SPD+Greens agreement in the Bundestag is around the corner (due today – tomorrow). 10Y Bund yields failed to print new highs on Friday despite an agreement with the Greens. We attribute this to the different narratives that are playing out, including tariffs and risk of a trade war (which would be negative for EUR growth), US data (which can provide a FTQ bid to global duration) and the future of defence spending in the EU (white paper from the European Commission due Wed – we suspect that individual countries will do most of the heavy lifting).

GBP

BoE week – markets are looking for a hold on Thursday. Following the votes in February, we'll keep a close eye on the vote split. Last week's weakness in the GDP data saw Gilts outperform USTs. With a hawkish BoE on the cards, we expect spreads to remain range-bound unless USTs sell-off significantly.

JPY

Relatively supportive tone in Asian equities overnight despite comments from US Treasury Secretary Bessent driving a small FTQ flow in US markets overnight. Except house prices, Chinese data released overnight, which included retail sales and investment, were better than expected. This provided some support to Asian equities overnight. Markets remain attentive of headlines from the Chinese NPC that is taking place as we write. In Japan, JGBs twist-steepened as traders look forward to this week's BoJ meeting (no action expected). USD/JPY rose overnight, likely on the back of tariff and internal political concerns.

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