



T.RowePrice



Market Pulse

Global Fixed Income Update

July 2025

Ahead
of the
Curve

One Big Beautiful Bill allows the totality of “Trump 2.0” to now crystallize

The notion that capital markets loathe material uncertainty has been on full display year-to-date. In anticipating tax cuts and deregulation that would come with a second Trump presidency, global investors warmly embraced the notion that U.S. equity market dominance that had existed for well over a decade would continue in perpetuity as 2025 began. But investors learned soon after that the totality of “Trump 2.0” would extend beyond providing additional succor for arguably overstretched U.S. and global equity markets and would also disrupt the Bretton Woods global financial system that has largely been in place since the end of World War II.

Going forward, for example, the U.S. appears to no longer serve as a free de facto global policeman supporting the global establishment. Beyond this realization, a much more impactful announcement came on “Liberation Day” in early April. Draconian tariffs of a scale not seen since the Great Depression were also a primary part of a plan that seemed to lack coherence. Global capital market participants were quick to deduce, for example, that such a rapid and growth-debilitating change could cause a recession in the world’s largest economy without some type of fiscal policy offset.

It wasn’t enough for this administration to claim that their use of tariff policy in 2018 did no harm to the U.S. economy in its attempt to rebalance a global trading system that was out of kilter. Those tariffs were limited and specifically measured and, importantly, followed the stimulative Tax Cuts and Jobs Act of 2017. And while a general expectation for more tariffs existed in early 2025, what was introduced on April 2 was arguably way beyond any market expectations. Worse yet, such an announcement came before what was then an uncertain fiscal package in terms of its composition as well as its likelihood of passing Congress. We all now know the rest: Markets were quick to understand and price in that delayed and materially less debilitating tariffs would allow for the vital passage of the One Big Beautiful Bill (OBBB). This has now happened, which has allowed President Trump to reignite tariff risk into the global financial system. In contrast to early April, however, heightened tariff risk is now incorporated into an arguably coherent overall agenda message that Trump delivered to NBC News during a wide-ranging interview on July 10.

It is against this backdrop that the T. Rowe Price Fixed Income Division held its July Policy Week where the following highlights emerged:

The OBBB is growth positive overall for the U.S., but—This historic and stimulative legislation comes at a time when the U.S. economy has demonstrated surprising resiliency relative to heightened uncertainty. And while questions exist about the state of U.S. labor markets, on its surface, with an unemployment rate of 4.1%, America is fully employed as expansive fiscal policy is introduced. This runs counter to classic Keynesian orthodoxy, which speaks to global regime change and questions around future levels of inflation.

Inflation has been benign, but—Thanks to regional housing market weakness, domestic real estate prices that exploded during the pandemic and ultimately helped drive materially higher levels of Owners' Equivalent Rent (OER)—which represents approximately 26% of total U.S. CPI—are now receding. This dynamic is helping inflation to remain benign even as the Federal Reserve and many market participants (including the T. Rowe Price Fixed Income Division) remain worried about future levels of inflation.

Questions around future U.S. rate levels—T. Rowe Price's Head of Fixed Income, Arif Hussain believes that "...the passing of the OBBB has confirmed our skepticism around austerity since the U.S. primary deficit is projected to increase under the new law... The tax cuts will keep the U.S. fiscal deficit elevated for the foreseeable future and put pressure on the long end of the U.S. Treasury curve." Potentially exacerbating Arif's view is the qualitative consideration that if the U.S. is indeed no longer the world's global policeman, then questions exist around future foreign demand for what is expected to be heightened U.S. coupon issuance going forward. Against this backdrop, the 10-year and longer portions of the U.S. Treasury market may be deeply pressured, while there may be attractive opportunities in inflation-linked bonds that have languished year-to-date amid benign inflation trends.

Importantly, timing matters when considering the look ahead for U.S. rates, as competing forces are influencing them. Anticipation of future Fed rate cuts is supportive of yields. The T. Rowe Price global economics team, for example, views current monetary policy in the U.S. as being too restrictive and sees potential for two 25-basis-point rate cuts coming from the Fed before year-end. Beyond cuts potentially being delivered by Fed chair Jerome Powell before he leaves his post at the end of this year, some market participants are already anticipating a more dovish Fed chair next year, which again supports rates.

Meanwhile, with the ink barely dry on the OBBB, President Trump is again escalating tariff policy risk, which can still drive higher future levels of inflation and rates. In addition, as referenced above, the unorthodox nature of adding material fiscal policy at a time of U.S. economic resiliency and full employment potentially harkens back to the 1960s, when the U.S. last breached its theoretical efficiency frontier. Back then, it took time for such policy to drive higher inflation and rates, and while this time is indeed different, caution is warranted regarding future U.S. rate levels.

A positive global growth environment—China's economy is potentially achieving stable momentum as its exports continue to grow despite trade tension while its fiscal policy appears modestly supportive for growth. Europe, in contrast, is slowing near term economically as front loading (ahead of elevated tariffs) economic activity recedes in future months. This near-term economic malaise, meanwhile, gets significant help from an expansive and historic fiscal policy boost related to necessary elevated defense and infrastructure spending in the wake of a radically different foreign policy approach from the Trump administration.

A domestic and global "Goldilocks" investment environment is supportive of global spread sectors—In an environment where spreads that materially widened in early April to retrace to again benign and historically tight levels, spread sector valuations appear broadly neutral at this time, as absolute yields remain attractive while fundamentals remain sound.

A stable to appreciating U.S. dollar right now gives way to more U.S. dollar weakness—A highly uncertain time for U.S. policy and some periodic questioning of owning U.S. assets has helped weaken the U.S. dollar by almost 10% year to date. Nevertheless, the passing of the OBBB may be a near-term catalyst for the dollar to consolidate and potentially appreciate from a near-term perspective. Medium to longer term, however, U.S. intent to indeed bring domestic manufacturing back for the purpose of expanding exports would be bolstered with a weaker domestic currency that has experienced a prolonged period of strength since the 2008 global financial crisis.

Bottom Line—In an environment where, indeed, the world has changed as the U.S. pursues a materially unique forward path relative to its approach for the past 80 years, active management in global fixed income takes on heightened importance. Through a disciplined investment process, anchored by its Policy Week in conjunction with expanding quantitative capabilities and its ongoing global bottom-up research effort, T. Rowe Price Fixed Income is well qualified to actively manage the array of global strategies that compose its investment platform through the uncertain times ahead.

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