



High grade and investment grade bonds offer attractive risk-reward and can help hedge against downturns. (UBS)

What does the US budget debate mean for markets?

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US Treasuries have come under pressure recently, with investors increasingly worried over the country's swelling debt burden. House Republicans have advanced President Trump's sweeping tax and spending cut bill, which has won approval from Congress's lower chamber of Congress.

CIO expects the market to recover and continues to see the 10-year UST yield falling to 4% by year-end as investors regain trust in US markets. We believe high grade and investment grade bonds present good value at current levels for investors seeking portfolio income.

President Trump's tax and spending bill has advanced in Congress, adding to worries over US debt levels.

- As it stands, the legislation proposed by the President, which he has dubbed "One, Big, Beautiful Bill," would add trillions of dollars to the country's USD 36tr debt load over the next decade.
- While tariff revenue would partially offset the rise in debt, it would not lower deficits materially, in our view.
- The yield on the 30-year US Treasury, though below a recent peak of nearly 5.1%, is still up around 30 basis points since late April, as of 9 June.

But confidence has started to stabilize, and we expect policymakers to be alert to the risks of market disruptions.

- Trump's tax-cut package will still face hurdles in Congress, including the potential for amendments.

- The US has high credit quality, with Treasuries remaining a perceived "safe haven."
- The Fed has signaled its readiness to intervene if market functioning were to become impaired.

So, we continue to believe high-quality bonds offer an attractive level of income along with diversification benefits.

- While there is a risk that bond yields could rise further in the weeks ahead in anticipation of higher US fiscal deficits, we believe current (or higher) yield levels offer an opportunity for investors to lock in durable portfolio income.
- Our preference remains for medium-tenor USD bonds of around five years, which are less sensitive than longer-duration bonds to budget concerns.

Investment view

High grade and investment grade bonds offer attractive risk-reward, in our view, and can help hedge against downturns. We prefer medium-duration bonds owing to fiscal risks at the long end. Higher yields and wider credit spreads have improved the outlook for riskier credit; for now, we prefer diversified income strategies, including across senior loans, private credit, equity income, and higher-quality credit.

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