# Macro Outlook Summary

July 2025

30Yr Government bond yields matter a lot because in the major economies where they exist they are the definitive barometer of bond investor sentiment regarding long term prospects for growth, inflation and fiscal stability. While central banks manage short term interest rates through monetary policy, long term government bond yields are set by institutional bond investors who are the community which translates short term rate changes into longer term bond yield changes.

Most are typically sceptical and cynical investors sometimes known as 'bond market vigilantes'. In a normal world central bank rate cuts should translate into longer term bond yield reductions as those bond investors agree that the central bank action was appropriate. Timeliness matters too but it is not symmetric, meaning timely rate cuts are far less important than timely rate hikes. Rate hikes push against normal consumer behaviour while rate cuts encourage what is already going on so there is a likely to be a longer lag in effect from hikes than cuts.

It is now widely accepted even by leading central bankers that their rate hiking response to covid induced inflation was late and not timely and perhaps this has resulted in an extra degree of caution as they progressively ease financial restrictions and cut rates to maintain economic growth. But they are also acutely aware of the need to bring those important bond investors with them and maintain their confidence in policy, so maintaining credibility is essential.

The ECB have done this reasonably well though single country issues like France are now taking the headlines. In the UK the BoE Governor has spoken more optimistically about rate cuts than the committee have actually delivered which in the end is good. In the US there has been similar caution over rate reductions by the Fed but not because of a UK inflation style worry but because the labour market and broad economy have remained surprisingly buoyant.

Rate cuts should be used to provide help when its needed and not to add fuel to an already steady fire. And of course, very careful attention needs to be paid if rate cuts lead to higher rather than lower long term rates. Jerome Powell has in our view done a good job managing rates down from their highs and is appropriately cautious. But the Trump administration pressure now being applied to the Fed to cut rates is undermining their independence and threatens to undermine investor confidence in US monetary policy management.

Long term bond yields are already under pressure globally because budget deficits remain high and political commitment to their reduction appears half-hearted. Government politicisation of central bank decision making seriously undermines bond investor confidence, raises borrowing costs and ultimately puts pressure on the economy through higher rates. This is not supportive for equities but for the time being it is being ignored.