For UBS marketing purposes

(UBS)

Bond outlook remains constructive despite rising yields

28 October 2024, 12:52 pm CET, written by UBS Editorial Team

In addition to scaled-back expectations for the Fed's easing pace following a recent string of better-than-expected economic data, the recent rise in US Treasury yields has also been supported by rising odds in prediction markets for a second Trump administration and concerns over global public debt.

A recent International Monetary Fund report estimated global public debt to exceed USD 100tr by year-end, with the US and China driving the surge.

But we believe the macro backdrop remains constructive for fixed income. The latest comments from Fed policymakers suggested that the US central bank remains on track to cut rates further amid broad disinflation, as the fed funds rate remains well above the Fed's estimate of neutral. With the Fed's latest Beige Book suggesting stagnant economic activity in most parts of the US, policymakers are unlikely to view actively restrictive policy as necessary.

In addition, we believe credit fundamentals on investment grade (IG) corporate bonds are solid against a resilient economic backdrop, with limited credit quality deterioration. We see potential returns in the high single digits over the coming 12 months.

Takeaway: We continue to recommend investors shift excess cash into quality fixed income as the rate-cutting cycle advances and erodes cash returns. Investors can also consider diversified fixed income strategies to further enhance portfolio income.

For more, see our **Weekly Global: Israel Responds**, published 28 October, 2024.

UBS

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.