

Three Tuesday Headlines Stood out—Here's Why

George Bory discusses three key U.S. headlines from April 22 and how fixed income assets may be affected.

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Key takeaways

- Three key pieces of news—from U.S. President Trump, Treasury Secretary Bessent, and Elon Musk—were released yesterday.
- George Bory breaks down how the latest news may affect markets, as of right now.

Yesterday's three big headlines:

- U.S. President Trump says he has no intention of firing Federal Reserve (Fed) Chair Powell.
- U.S. Treasury Secretary Bessent expects the China trade standoff to de-escalate and that a deal is possible.
- Elon Musk, senior advisor to President Trump, plans to refocus on Tesla (and spend less time on the Department of Government Efficiency, known as DOGE).

These announcements have reduced some of the extreme tail risk in the market—and to no great surprise, today's stock futures are up 2-3% (after being up 2.5% yesterday), bond yields are lower (with the curve flatter), credit spreads are tighter, and the U.S. dollar is stronger (up about 1% from yesterday).

While this is hardly the “all-clear” signal, it does suggest that President Trump got the message: Markets were having a difficult time adjusting to the idea of sudden implementation of extreme tariffs and the prospect of the Fed's loss of independence. However, an “unpredictability” risk premium is likely to persist as Trump and team remain very much in the “negotiation phase” for both tariffs and the pending reconciliation tax plan.

The Fed. The Fed can get back to the business of worrying about unemployment, inflation, and financial stability. It seems unlikely that it will cut rates until it sees “hard” evidence of higher unemployment and/or notably slower growth. That said, somewhat perversely, the lack of President Trump's pressure may incentivize the Fed to cut somewhat sooner than otherwise expected. **Best guess right now:** a June cut, then more “wait and see.”

Yields. Despite all the hoopla, the 10-year U.S. Treasury held the range of 4.0–4.5% over the past three-plus weeks. **Best guess right now:** We continue to trade in the same range until the data validates a move in either direction, with a bias toward lower yields if the Fed cuts rates on the back of weaker employment. That said, the broader, longer-term range of 3.5–5.0% remains very much intact.

Curve. The recent steepening trend is likely to stall out as recent positioning is unwound. That said, the 30-year U.S. Treasury still seems to be in an up-channel—but it didn't breach the

resistance level of 5.00%, so it may settle around 4.75% as the market awaits inflation data and clarity on foreign demand.

Credit. Spreads are poised for a snapback as tail hedges are unwound, but they're unlikely to go back anywhere close to their tightest levels. Recession fears persist, and portfolio rebalancing is likely to unfold as sectors adjust to the effects of new tariffs and repercussions of recent volatility. **Best guess right now:** Spreads retrace 20–25% of their recent widening, but we should expect a big pickup in issuance as companies rush to secure funding and term out (transfer debt internally on their balance sheets) any near-term maturities.

U.S. dollar. A snapback rally seems likely, but it may be short lived as “the genie is out of the bottle” and diversification away from the U.S. dollar seems likely to continue, though the pace may slow in the near term. **Best guess right now:** At ~114, we're at the bottom end of a new range for the euro against the U.S. dollar (EURUSD pair), which should go up, not down, from here. More important is the renminbi (Chinese yuan), which remains locked to the U.S. dollar.

Overall. Bonds are in a tough spot. Bond investors aren't accustomed to the kind of volatility we've experienced over the past few weeks. For retail investors, the wounds from 2022 are still fresh, and the reopening of those wounds will likely make them gun-shy in the coming weeks/months. That said, the message of “**income is your friend**” and “**duration diversification**” should resonate as both helped offset some of the extreme volatility of the past few weeks.

Observations. Front-end strategies with maturities between two and five years may be a good spot to harbor risk with enough duration to matter if (when) the Fed starts cutting rates and provide ample income to justify the allocation (this is particularly true for municipal bonds). Multi-sector diversification is powerful and could help buffer volatility. Longer duration, unfortunately, is a much tougher call, in my opinion. Inflation is unclear, and the possibility of another bout of U.S. administration-induced volatility can't be ignored. Furthermore, Congress comes back from recess soon, and the tax discussions will certainly heat up with the prospect of big tax cuts funded by heavy government bond issuance. The situation is fluid, of course, and all could change in a flash.

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