Latest Market Focus –
Government Bond Market Outlook
Fed Hike Rate Likely

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- **Fed holds rates steady, but internal views are divided:** The Fed kept its policy rate unchanged with three dissented and argued for a rate hike. The latest interest-rate futures indicate a 90% chance of a rate hike in October
- **Multiple macro factors are providing structural support to US Treasury yields:** Capital enthusiasm driven by artificial intelligence, inflation concerns stemming from trade barriers, and deficit spending leading to a heavy supply of US Treasuries are collectively pushing up long-term nominal yields
- **With yields rising, bond positioning should remain diversified:** US Treasury yields generally moved higher after the Fed meeting. Long-dated bonds are expected to remain volatile, while investors continue to seek higher-yielding assets. Maintaining a shorter duration and adding Asian high-yield bonds, emerging market debt, and floating-rate securitised credit to mitigate the effects of volatility in yields

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