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Chief Investment Office GWM
Investment Research

Bond yields should continue to decline despite fiscal concerns

UBS House View - Daily Europe

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From the studio

Video: **CIO's Min Lan Tan on our Asia 2H25 outlook** (6:28)
Video: **Five things to watch in the second half, with CIO's Kiran Ganesh** (3:16)
Video: **CIO mid-year checklist – your next portfolio steps, with CIO's Jon Gordon** (5:50)

Thought of the day

US Treasuries fell in recent days as data showed the labor market remained resilient. The One Big Beautiful Bill Act (OBBBA) that the House Republicans are rushing to pass in the next several hours has also put US fiscal worries under the spotlight. The yield on the 10-year Treasury climbed 5 basis points to 4.29% on Wednesday.

The House of Representatives are expected to vote shortly on the Senate's version of the OBBBA, which would raise the debt ceiling by USD 5tr, more than the USD 4tr approved by the house last month, as Republicans seek to send the bill to President Donald Trump's desk by the 4 July deadline.

Separately, job openings in May rose to the highest level since November 2024, according to the latest Job Openings and Labor Turnover Survey, while layoffs have fallen. The quits rate, a key indicator of worker confidence, also edged up from a month earlier. Federal Reserve Chair Jerome Powell this week reiterated that the US central bank plans to wait for more data before lowering interest rates.

But while US deficits are set to increase over the coming years, we do not expect a sustained Treasury sell-off. We believe the recent declines in bond yields will continue over the remainder of the year.

Supply of longer-term Treasuries should stay under control. A key investor concern behind the sharp rise in the long end of the yield curve earlier this year was the prospect of a ballooning supply of long-dated Treasury bonds needed to finance the growing federal debt. But recent auctions have shown a stabilization in investor sentiment. Treasury Secretary Scott Bessent earlier this week also indicated that his department

What to watch: 3 July 2025

- US June jobs report
- US ISM services sector survey
- Swiss consumer price inflation for June

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is unlikely to ramp up sales of longer-term securities given where yields are now. Instead, we expect more short-term Treasuries, such as T-bills, will be issued until the Fed resumes policy easing later this year.

The US's ability to repay its debt remains intact. We expect the house to approve Trump's signature economic policy agenda although the non-partisan Congressional Budget Office estimates the bill will add USD 800bn more to the national debt than the initial House version over the coming decade. But we think the US remains able to manage its debt. The Fed's credibility, the US dollar's reserve status, deep and liquid Treasury markets, Fed balance sheet holdings, and bank capital regulations could all help finance the deficit.

Further interest rate cuts should bring yields lower. While job openings rose in May, hiring momentum has slowed, suggesting businesses are cautious about long-term hiring plans as trade and economic headwinds persist. As markets look to the June labor report due late today, we expect payroll growth to slow soon as the impact of policy shifts becomes more apparent. The ISM Manufacturing PMI for June signaled that US factory activity has contracted for a fourth consecutive month. Our base case remains that the Fed would resume easing in September, bringing interest rates 100 basis points lower over the next 12 months as growth slows.

So, we continue to think high-quality government and investment grade corporate bonds offer attractive risk-reward for investors seeking durable portfolio income. Long-term investors can also consider diversified fixed income strategies.

Caught our attention

Trump announces trade deal with Vietnam. US President Donald Trump announced in a Truth Social post on Wednesday that the US has reached a trade agreement with Vietnam. The deal, which followed direct talks with Vietnamese General Secretary Tô Lâm, would see a 20% tariff placed on Vietnamese exports to the US, with a 40% levy on goods deemed to be transshipped through the country. Trump said that Vietnam had agreed to drop all levies on US imports. Other details remain scarce at the time of writing, especially on how the transshipment provision—aimed largely at products rerouting from China—would be implemented and enforced. In early April, Trump had imposed a 46% duty on Vietnam as part of his initial rollout of the "reciprocal" tariffs. The Vietnam dong weakened 0.2% against the US dollar on Thursday morning, while the local stock market edged up 0.2%.

Our view: The deal with Vietnam indicates that countries with sustained high trade surpluses with the US and those that act as a transshipment hub for Chinese products could face both a higher baseline tariff and tariffs on goods that have been rerouted to circumvent tariffs. In Asia, we would highlight Thailand and Malaysia as the next to watch, with a range of differentiated deals likely given the region's trade patterns. Penalizing transhippers relatively heavily should also accelerate the supply chain relocation out of China. However, we maintain our base case that the US effective tariff rate should end the year at around 15%, a headwind to US economic growth but unlikely to trigger a recession as negotiations with the country's larger trading

partners continue. India is reportedly closing in on a deal, while talks with Canada and Mexico are on a separate track. With ongoing tariff headline risks, we recommend gradually increasing exposure to diversified global stocks or balanced portfolios to position for stronger potential returns in 2026 and beyond.

Market update

02.07.2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	16.6	-0	-0	-2	-1
MOVE Index	91	-2	+0	-4	-7
S&P 500	6227	+0.5%	+2.2%	+4.9%	+5.9%
S&P 500 trailing P/E (**)	24.2x		+0.6x	+1.1x	-0.4x
S&P 500 forward P/E (**)	21.9x		+0.5x	+1.0x	+0.4x
S&P 500 forward P/E ex-Mag 7 (**)	19.9x		+0.4x	+0.6x	+1.0x
Russell 2000	2226	+1.3%	+4.2%	+7.5%	-0.2%
Euro Stoxx 600	541	+0.2%	+0.8%	-1.2%	+6.6%
Shanghai Composite	3455	-0.1%	-0.0%	+2.8%	+3.1%
US 10-year Treasury	4.29	+5	-0	-15	-28
US 2-year Treasury	3.79	+2	+1	-15	-45
Germany's 10-year Bund	2.66	+9	+10	+14	+29
Germany's 2-year Bund	1.86	+1	+2	+7	-22
EURUSD	1.180	-0.1%	+1.2%	+3.1%	+13.9%
EURCHF	0.93	-0.0%	-0.5%	-0.1%	-0.7%
USDCHF	0.79	+0.1%	-1.6%	-3.1%	-12.7%
USDJPY	144	+0.2%	-1.1%	+0.7%	-8.6%
Brent crude, USD/bbl	69	+2.8%	+2.0%	+6.8%	-7.5%
Gold, USD/oz	3369	+0.6%	+1.2%	-0.1%	+27.6%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, UBS

Appendix

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