

Weekly Macro and Markets View

18 May 2026



Highlights and View

Global bond yields surge higher as inflationary concerns intensify

Further yield rises present a clear risk to the macro and market outlook, and further constrain governments' limited fiscal policy space.

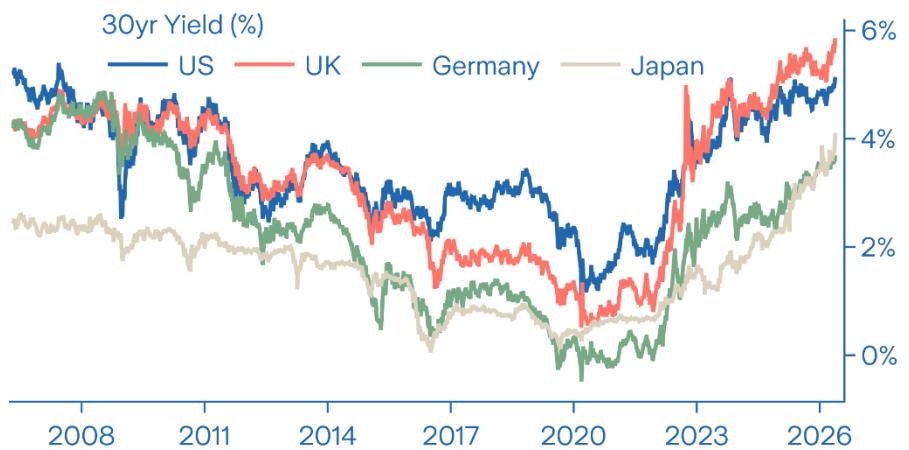
US headline inflation accelerates to 3.8% YoY, the highest in three years

The spike in energy prices is leaving its mark, with producer price inflation accelerating to 6.0% YoY in April.

US municipals fell last week but outperformed Treasuries and corporate bonds

Municipals can be considered a safe haven from geopolitical spillovers, which, along with solid fund inflows and still attractive taxable-equivalent yields, should keep demand supported.

Bond yield surge: everything, everywhere, all at once



Source: Bloomberg

Government bond yields surged in major markets last week, invoking a variety of historical comparisons. For 30yr maturities, UK bond yields are at levels not seen since 1998 while Japanese yields are at their highest on record. The proximate cause can be summarised as everything, everywhere, all at once. The continued closure of the Strait of Hormuz is increasingly feeding into higher oil and gas prices, with no breakthrough in sight. In the US, surprisingly strong inflation data weighed on Treasuries. In the UK, political uncertainty added an idiosyncratic catalyst to send gilt yields higher. In Japan, ongoing inflation concerns exacerbated by the energy shock and a lack of BoJ response sent JGB yields notably higher. These stories all contributed to global bond weakness. The moves clearly weigh on the macro outlook and risk feeding more negatively into equity and credit markets. Governments are not in a position to respond to this shock with significant fiscal loosening. Bond weakness may beget further weakness as buyers pull back given ongoing losses, further exacerbating fiscal constraints. Long-term market inflation expectations remain consistent with inflation targets. Recent moves higher do bear watching. Central banks are in a difficult situation and face unpleasant policy trade-offs. Markets are pricing in aggressive tightening by many which would weigh considerably on growth if delivered.

US

Headline inflation rises to the highest in three years

Headline CPI inflation was 0.6% MoM in April, compared to 0.9% MoM in March, pushing the annual rate to 3.8% YoY from 3.3% YoY. Not surprisingly, higher energy costs triggered by the Middle East crisis left their traces, pushing up categories like energy, airfares, and postage and delivery services. Grocery prices saw their largest monthly rise since 2022. Spillovers into other categories remain limited so far though Core CPI accelerated to 2.8% YoY from 2.6% the month before. Producer prices are also showing signs of increasing price pressure, with

headline PPI accelerating markedly to 6.0% YoY, the fastest pace since December 2022. Despite the steep increase in gasoline prices, consumer spending remains resilient so far. Retail sales rose by 0.5% MoM in April (both headline and excluding auto and gas). Initial jobless claims ticked up but remain very low, indicating that the labour market is holding up. The S&P 500 eked out its seventh weekly gain in a row, rising 0.1% despite the late sell-off with Friday being the worst day since March.

Eurozone

Labour market woes

Eurozone economic data has been broadly weak since the onset of the US-Iran conflict. While this is mainly evident in weak sentiment data, such as plummeting consumer confidence, the labour market is clearly weakening. Q1 employment data for the Eurozone shows employment growing at 0.5% YoY, its slowest pace since Covid. This measure has been consistently slowing since 2022 and will likely slow further. French Q1 unemployment rose unexpectedly from 7.7% to 7.9%, the highest since 2021. Germany has seen a similar deterioration, with its

official unemployment rate, 6.1%, now above Italy's, 5.3%. Italy and Spain have been driving overall job growth in the bloc but falling PMI readings indicate possible weakness to come. Overall, the Eurozone's economic outlook has darkened in response to yet another global shock, primarily due to imported energy sensitivity. The consumer outlook, already weak, is likely to be a negative growth driver. Positives remain, primarily in public and private business investment plans, but monetary policy headwinds weigh on this.

Australia

The budget provides little relief for either the housing gap or the productivity slump

The 2025/26 deficit is estimated to be -1% of GDP, helped by strong commodity-driven revenues, but spending was near record highs at 26.6% of GDP, with similar figures projected for the next four years. Notably, elevated fiscal spending is working against the RBA's inflation fight, potentially keeping monetary policy restrictive. The key measure is housing tax reform. Starting in July 2027, negative gearing (tax deductibility for property investment losses) will be limited to new builds, the 50% capital gains tax discount replaced by tax on inflation-

adjusted gains, and trust distributions subject to a 30% minimum tax. While these changes may offer near-term relief for stretched house prices, they do little to fix the deeper housing shortages amid strong population growth. (See our publication, [The Driving Forces behind Australia's Housing Market](#)). Tax burdens will fall mainly on the wealthy while lower-income earners will receive modest support via tax cuts and offsets. Overall, the budget keeps fiscal spending high and risks furthering inflation while falling short on reforms to lift productivity.

LatAm

Sticky core inflation keeps the BCB on a cautious easing path

In Brazil, April CPI rose 0.7% MoM (from 0.9%), in line with consensus, lifting the annual rate to 4.4% YoY, just a tenth below the ceiling of the BCB's target band. The upside was concentrated in healthcare and food and beverages while gasoline pressure moderated, helped by government subsidies smoothing the energy passthrough into headline prices, with the sharp fall in airfares also supporting the contained monthly reading. However, beneath the benign headline print, the composition was less comfortable, with pressures broadening

across core measures. Despite the BRL appreciation, average core accelerated to 0.5% MoM (from 0.4%), driven by core goods, suggesting rising input costs are feeding through, while core services continue running at a high annual pace, reflecting resilient domestic demand. Overall, we maintain our view that BCB easing will continue throughout the year at a gradual pace. That said, persistently sticky core readings and upside risks from oil and food may make the argument for a more cautious policy stance, increasing the likelihood of a pause.

US Municipals

Resilient as safe-haven characteristics are seen

US municipals posted negative returns last week amid broad risk-off sentiment across markets. Following a strong April rally that saw the Bloomberg Municipal Bond Index record a total return of 1.15%, returns turned modestly negative in May, though they were still better than those of corporates and Treasuries. Supply has remained elevated and demand firm, with municipal mutual funds recording net inflows for a fourth consecutive week, according to Lipper. Looking ahead, municipal yields should continue to attract demand, although

municipals-to-Treasuries yield ratios look less compelling after further compression. Notably, 10yr municipal yields rose only 11bps last week versus a 24bp rise in Treasury yields. Nevertheless, municipal taxable-equivalent yields remain above historical averages and continue to provide attractive pickup versus taxable alternatives. That should support investor demand, especially as the municipal market remains relatively insulated from broader geopolitical spillovers and hence can be considered a safe haven in the current environment.

What to Watch

- In the US, investors will focus on Nvidia's earnings report as well as housing and PMI data.
- We will receive May Flash PMI readings for the Eurozone, Germany and France, as well as consumer confidence figures for the bloc and Germany.
- Q1 GDP and industrial production data will be published for Switzerland.
- In Asia, central bank decisions are due in China and Indonesia, with Bank Indonesia expected to raise rates by 25bps. Elsewhere, April inflation prints from Australia, Japan and Hong Kong should offer clues as to the impact of higher energy prices.
- In LatAm, Q1 GDP releases will be in focus this week.

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