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Weekly Macro and Markets View

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Highlights and View

Marine Le Pen confirms her bid for French Presidency in 2027 after a court clears her to run

Markets are increasingly focused on this race as the outlook for the French deficit continues to deteriorate.

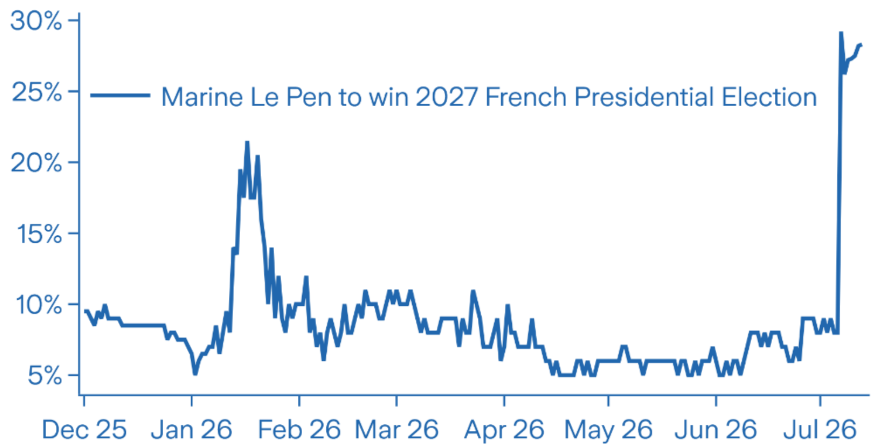
The Fed minutes emphasise the FOMC's focus on price stability

The committee sees a risk for increasing price pressure created by strong demand for AI infrastructure.

Oil prices rebound modestly as the US-Iran conflict re-escalates, leading government bond yields higher

Government bond yields are starting to look stretched to the upside amid rising real yields, though geopolitics and the price of oil will remain decisive.

Marine Le Pen confirms French Presidential bid



Source: Polymarket/Bloomberg

Following a court victory in Paris, National Rally party leader Marine Le Pen confirmed her intention to run in next April's French Presidential Election. A veteran of the race, Le Pen has already run, and lost, three times. This time polls suggest a joint ticket with her protégé Jordan Bardella as the Prime Ministerial candidate has a significant chance of victory. This partially reflects growing political disquiet with the status quo, as seen by the rise of firebrand left-wing counterpoint Jean Luc Melanchon. But it also reflects a deliberate professionalisation and moderation of the National Rally from its former guise of the National Front. While antagonism and suspicion towards the EU remains a core party belief, a pledge to leave the EU and Euro has long been dropped. If this policy comes back during campaigning, it would be a significant negative for French debt markets. A more likely risk for financial markets for the upcoming election is a litany of unrealistic spending pledges from the broader field. While Le Pen's previous policy of lowering the retirement age is a clear example of this, many other potential Presidential candidates have pledged additional spending or revenue reductions. We expect French bonds to underperform other Eurozone sovereigns as the campaigning ramps up towards April. France's two-round system creates additional uncertainty but based on today's polls it looks likely that Le Pen will be facing off versus the second most popular of a large and varied field.

US

Services activity keeps expanding

Services activity expanded at a slightly slower pace in June according to the latest ISM Services Survey. New orders have lost some momentum but keep signalling robust activity in the services sector. Employment has picked up for the first time in four months. Price pressure remains elevated but has softened to the lowest since the beginning of the Middle East tensions. The Fed minutes did not bring any surprises but indicated some worries about persistent underlying inflation risks as many participants noted that ongoing strong demand for AI infrastructure would likely sustain upward pressure on prices for technology products and electricity. Investors' expectations for a rate hike picked up marginally. Stock markets kept rising despite a flare-up of tensions in the Middle East. The S&P 500 gained 1.2% last week, helped by a solid performance of technology stocks. Small cap stocks face more headwinds, though, with the Russell 2000 receding for the second week in row.

China

The inflation divide keeps stimulus hopes alive

China's June inflation data highlights an ongoing CPI-PPI gap: weak domestic consumption alongside better producer pricing on strong AI-related export demand. CPI rose just 1.0% YoY, below expectations, while PPI held firm at 4.1% YoY despite a MoM softening on lower energy prices. Beyond external demand that lifted hardware prices and AI related commodities, anti-involution measures helped to curb excess supply in solar and batteries, further supporting PPI. CPI, however, reflected broadly weak consumer spending, warranting more policy support. After a period of weak momentum, China's stocks have experienced some inflows again as investors rotated from crowded AI chipmakers in Asia into cheaper H-share tech names like Alibaba, Tencent and Xiaomi, betting on policy stimulus in H2. Recent signals suggest targeted consumption measures are imminent. Still, we are watching closely. Chinese stocks need more than a nudge to break their lacklustre spell, and greater visibility on policy stimulus and improvements in tangible earnings remain key.

LatAm

Benign inflation prints, yet policy caution prevails

Last week's inflation releases were notably benign across the region, though they left the monetary policy outlook essentially unchanged. In Brazil, June CPI slowed to 0.2% MoM and 4.6% YoY, below the 4.8% consensus, as unexpected food deflation and softer underlying measures produced a favourable reading. Against this backdrop, the BCB is expected to continue its gradual easing cycle at its August meeting. However, given that inflation expectations remain well above target, the risk of an early pause later this year remains material. In Mexico, CPI fell 0.3% MoM, bringing annual inflation down to 3.4% and surprising to the downside. However, it is worth noting that non-core prices accounted for most of the weak print, declining 2.0% MoM and slowing to just 1.1% YoY amid a sharp correction in volatile fresh-food prices. This improvement appears difficult to sustain, particularly as core inflation remains at the upper bound of the tolerance range at 4.0% YoY. In this context, while the benign print is a welcome development, we expect Banxico to remain on hold over the coming meetings.

Bonds

Government bond markets remain focused on oil

Bond markets responded to last week's re-escalation between the US and Iran, which lifted Brent prices by 5%. Bunds underperformed, with the 10yr yield trading above 3% again, up 13bps on the week. The move was led by hawkish ECB repricing, with one further rate hike priced this year, despite sluggish growth and declining inflation. By contrast, JGB yields fell back after the fiscally driven sell-off in the prior week as the government stated that they will encourage pension funds to raise allocations to domestic financial assets. While this does not deal with the underlying problem, the announcement was well received and led JGB yields lower. Although Treasuries were relatively resilient, the 10yr yield rose to 4.56% and is approaching the upper end of its recent range. US real yields have also risen sharply as pricing of inflation has slumped, in part due to lower oil prices, but also reflecting the new Fed Chair's hawkish pivot. At these levels, government bonds are starting to look attractive, though geopolitics and the price of oil will remain decisive.

US Municipals

Strong first-half performance, but valuations look rich now

Municipals delivered a strong performance in H1 2026, with Investment Grade and High Yield municipals delivering 2.3% and 4.1% respectively, outperforming Treasuries and corporate peers. The trend has continued in July, with the Bloomberg US Municipal index outperforming both Treasuries and corporate peers, despite returns turning negative last week. Demand has remained resilient, supported by strong inflows and attractive tax-adjusted yields. Valuations, however, have become richer, with Municipals-to-Treasuries yield ratios below historical averages and spreads close to the tighter end of their recent range. Issuance has been extremely strong, with electric power and utilities seeing rising supply, supported by AI-related infrastructure needs. Credit fundamentals remain broadly sound, with low default rates and stable state and local finances, although the peak in credit quality is likely behind us. Performance is likely to remain healthy in H2, thanks to a supportive backdrop, but run at a slower pace than seen in H1 given the richer valuations. Interest-rate volatility and supply trends remain key risks.

What to Watch

- In the US, investors will focus on the latest set of inflation data and retail sales.
- This week we receive Eurozone Industrial production for May, as well as the first producer price inflation data for June from Germany and Spain.
- China's June activity data will be key to watch. In ASEAN, Q2 GDP releases are due in Malaysia and Singapore.
- In LatAm, Brazil's May economic activity index will be the key focus this week.

Disclaimer and cautionary statement

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