



GLOBAL CREDIT

Letters from Bangkok

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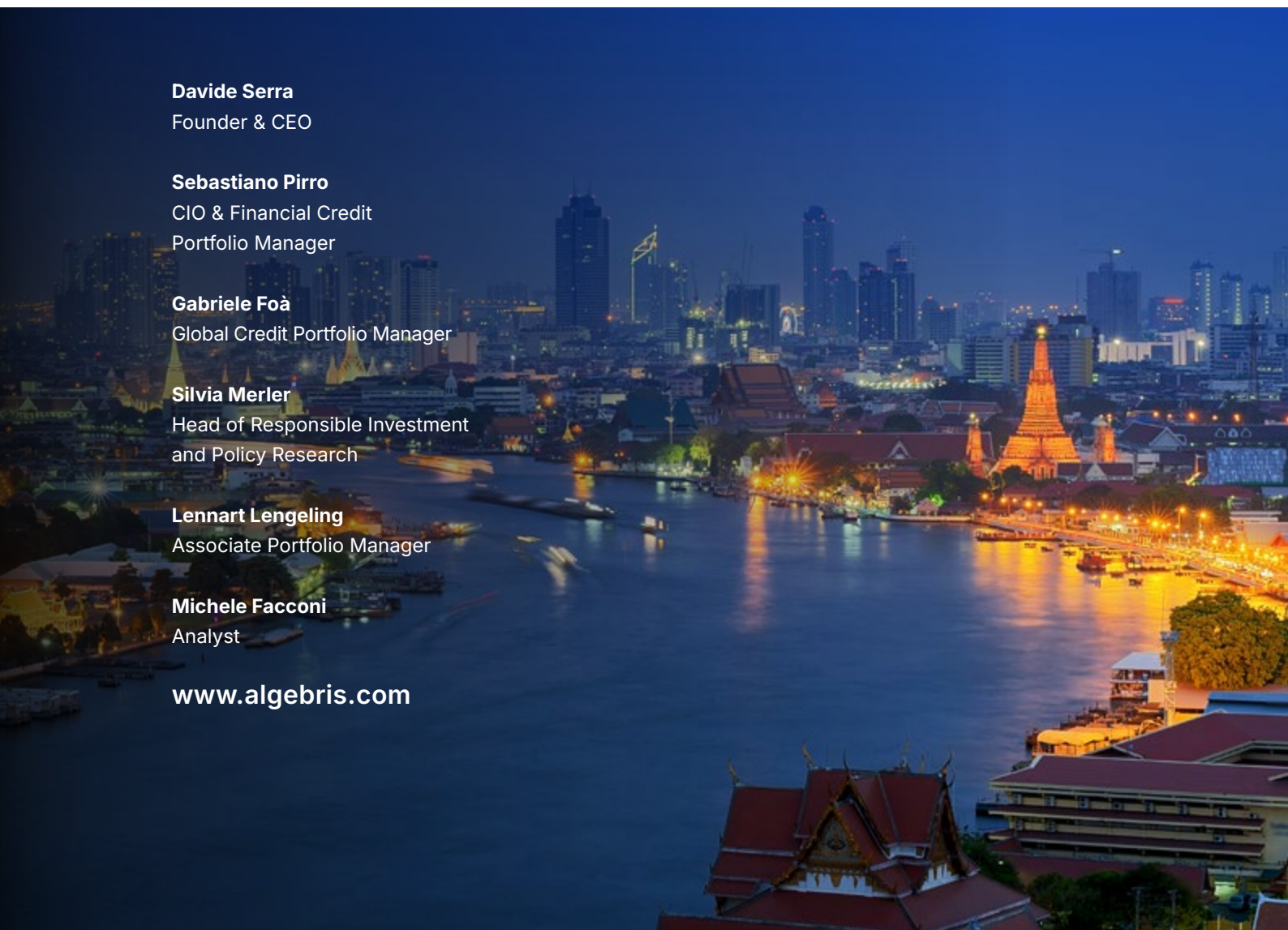
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In this report

We attended the IMF/World Bank meetings in Bangkok. Over the week, we held more than 60 meetings with policymakers, central bankers, political and macro analysts, and the global investor community. Consensus is constructive on growth and not too negative on inflation risks. Carry trades and tech equities remain top longs, though enthusiasm for the AI trade is fading. There is broad pessimism on global duration given AI capex and fiscal challenges. France is now a consensus short, and Eurozone fears are on the rise ahead of the 2027 elections. We maintain a cautious bias on risk and spreads, and a more constructive approach to duration.

Letters from Bangkok

Investors at the IMF meetings in Bangkok struck a **constructive but not exuberant tone**, adding risk selectively. Popular trades were mostly idiosyncratic stories within EM (including continued EM/DM compression) and general carry expressions, while most investors were neutral on duration or slightly underweight. Few, if any, were looking to buy French government debt yet, but expected a further widening of high-beta credit spreads. In contrast to the April meetings, there was much less fear of missing out on the equity/AI trade, despite a third of investors maintaining S&P 500 targets above 8,000 by the end of 2027.

Global growth is holding up well, while inflation remains sticky, although wage negotiations are expected to be soft. More than half of investors in a survey expected global growth to stabilise at current levels, while a third were split between re-acceleration and a slowdown. **Energy prices** were a concern across the board, with more than half of investors expecting prices to remain higher for longer and the fragile truce in the Strait of Hormuz to hold.

Fiscal concerns dominated most conversations, led by US deficits and recent **French government bond** weakness, with little sense of resolution. The issue is the cost of debt rather than its level: developed-market 10-year yields sit around 160bp above the average cost of existing debt, so interest bills keep rising as debt rolls over. The US term premium is only back at its pre-GFC level, even though debt is about 40pp of GDP higher. According to experts, the US needs a fiscal adjustment of about 3.5% of GDP, and France about 2.5%. Credible fiscal consolidation, ideally anchored by the IMF or other institutions, is what gets rewarded. EM is in a much stronger fiscal position than in previous years, and years of good policies are now yielding results. Defence spending will remain the core focus in most budgets.

AI risks were seen as two-sided, with AI delivering strong productivity enhancements that are likely already well reflected in valuations, across equity earnings expectations and real rates. AI capex is the clear growth engine, accounting for about 100% of US growth. **Capex** is expected to rise by 85% this year, 35–40% in 2027 and 11% in 2028, although conviction is low beyond 2027. Surveys point to productivity growth of 0.5–2%, while the IMF sees 0.8%. Thai and Australian lenders flagged the risk of data-centre overbuilding.

CENTRAL BANKS

Cautious, Meeting by Meeting

US and European central bankers struck a cautious tone, advocating measured responses to high energy prices while

Inflation expectations are anchored, allowing central banks to remain patient and make decisions meeting by meeting.

monitoring second-round effects. Inflation expectations are broadly anchored, allowing most central banks to remain patient and make decisions meeting by meeting, as credible central banks can look through supply shocks more easily. The politicisation of US policy is seen as unprecedented, putting central bank credibility there under continued pressure. Several EM central banks are reviewing their targets, while communication and neutral-rate estimates are also being reviewed more broadly. FX pass-through has fallen as economies shift towards services, but it is asymmetric and can rise quickly if depreciation is sharp or persistent.

Fed speakers pushed back on the urgency of further rate hikes, but most spoke before the hot US CPI print last Wednesday. Warsh refused to comment on the prospects of an October hike but reiterated a solid growth outlook for the US and described an investment surge extending well beyond AI. Amid developing weakness in equity markets throughout the week, the base case for the next Fed hike shifted to December, with most investors still expecting 1–2 hikes in total.

EUROPE

France in the spotlight

Discussions on Europe focused on the French government bond market sell-off, spillovers to other countries' spreads and intervention options for the ECB. Officials avoided signalling immediate intervention via TPI and rejected using changes to QT as a crisis tool. The operational framework review in Q1 2027 will assess reserve demand in the Eurozone and study options for a structural bond portfolio. The French bond market sell-off seemed contained for now, but few investors wanted to go long. If intervention is required, details of potential purchases remain entirely unclear.

Political concerns focused on a likely polarised parliament following the presidential election, with a weakened centre and extreme views on both the left and right. The bond market sell-off was seen as effectively disciplining French policymakers and enforcing an improved fiscal stance.

TAIL RISKS

US Policy Uncertainty

Tail risks discussed revolved around US policy actions following the midterm elections, including raising tariff rates again, re-escalating the US/Iran conflict and budget reconciliation conflicts. The US midterms themselves are not a policy concern. A third of investors see national security threats and high commodity prices as the main risk to the global economy, while just under a third see high rates and tight financial conditions as the main risk.

LATIN AMERICA

Investor Confidence is Back

In LatAm, the electoral cycle is almost over, and the shift towards market-friendly governments has brought back investor confidence. Fiscal policy is still the main problem, but the direction of travel is right. Being oil-rich allows the region to keep diesel and petrol prices far lower than elsewhere. The risks coming from El Niño are now seen as strong to very strong, with food inflation expected to peak next year, though tight monetary policy should cushion the effect. Colombia and Brazil are the most favoured names.

CEEMEA

It's better with oil

In CEEMEA and frontier markets, central banks are responding to the energy price shock while still assessing its impact. So far, FX is behaving well and funding remains available. Oil-rich names such as Nigeria and Kazakhstan remain the sweet spot for investors. Countries that restructured after 2022 are now performing better, helping their economies absorb the shock.

ASIA

Growind Doubts Over China's Model

In China, some fear is emerging over weak domestic demand, which is pushing exports up. The sustainability of China's model is increasingly being questioned. Beijing is already tightening tax enforcement to rebuild fiscal buffers, with further measures floated during our discussions, such as reducing VAT rebates, cutting local government subsidies to corporates and introducing property taxes. The challenge is that policies which make sense from a fiscal and rebalancing perspective could further weigh on already-weak retail demand and market confidence.

Macro concerns are starting to emerge in selected **ASEAN economies**, such as the Philippines and Indonesia. Consensus on India is also turning more negative.

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NOTES

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