Franklin Templeton Fixed Income Insights

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Global central banks are entering a more complicated phase, according to Franklin Templeton Fixed Income, where patience increasingly comes with conditions. Policymakers are balancing sticky inflation risks, uneven growth and region-specific pressures.

Global markets face a more stagflationary backdrop as inflation pressures intensify, growth diverges and central banks stay on alert. Tech and artificial intelligence investment continue to support the United States, Europe wrestles with a fresh inflation shock, and Japan shows resilience. But rising costs, supply strains and policy uncertainty cloud the outlook.

According to Franklin Templeton CIO Sonal Desai, the Treasury Secretary Bessent’s announcement of at least doubling the size of Treasury buybacks will not move the needle without a reduced fiscal deficit.

Financial markets read Kevin Warsh’s second press conference as dovish: Expectations of a near-term rate hike fell, long-term bond yields rose, the dollar weakened and so did stocks. Franklin Templeton Fixed Income CIO Sonal Desai believes it is a stretch to conclude that the new Fed Chair is just another dove. Her take is that we are seeing the inevitable heightened volatility of expectations in a changing monetary policy regime. It all boils down to the actions: If the Fed is serious about bringing inflation back to target, it will need to nudge the policy rate up.

Kevin Warsh came out as a hawk during his first press conference as Federal Reserve (Fed) chair. Franklin Templeton Fixed Income CIO Sonal Desai believes that he may be the most hawkish chair since Paul Volcker. Warsh stressed that the Fed can and will bring inflation back to 2%, and signaled his preference for a smaller balance sheet and no forward guidance—a welcome return to more orthodox monetary policy.

The US outlook has been branded with a new scarlet letter: a K. The prevailing narrative describes a “K-shaped” economy overly reliant on consumption by high-income households. According to Franklin Templeton Fixed Income CIO Sonal Desai, that narrative is quite misleading. She notes that incomes have been rising broadly across the population and argues that the economy looks more resilient than the headlines suggest.

The Iran conflict is the headline—but deglobalization and innovation are the story. Franklin Templeton Fixed Income CIO Sonal Desai shares her perspective on the two structural shifts that she believes matter most right now: retrenchment in globalization and accelerating innovation. Both point to higher yields—plus more volatility ahead.

Franklin Templeton Fixed Income CIO Sonal Desai shares her perspective on the US dollar. She believes any recent weakness should be understood as cyclical rather than structural because the dollar’s dominance remains unchallenged, anchored by the United States’ economic scale, institutional credibility and unrivaled market depth.

July saw the renewed Middle East conflict weigh on financial markets, lift oil prices and push sovereign yields higher, according to the Templeton Global Macro team. We continue to favor select developed and emerging markets with positive fundamentals and particularly those that can leverage changes in the global supply chain.

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Growth is holding up across major economies, according to the Franklin Templeton Fixed Income team, but geopolitics and energy prices are raising inflation risks. Policy remains the key swing factor, with central banks potentially diverging. Find out more in the latest FTFI Macro Views.

The Franklin Templeton Fixed Income team believes the US economy is expected to remain resilient in 2026, while the euro area faces cautious optimism. Japan’s growth is underpinned by fiscal expansion and robust private demand. Find out more in the latest “Macro Views.”

Foundational improvements in market structure and policy frameworks have strengthened emerging markets’ (EM) resilience to external shocks.

This quarterly deep dive from the Franklin Templeton Fixed Income team analyses emerging market performance to try to understand whether strong, positive cycles offer clues to more efficient allocations across hard-currency and local-currency debt.

Although sentiment remains sensitive to headlines around the Strait of Hormuz and energy markets, Franklin Templeton’s Emerging Markets Debt team sees an asset class that has shown it can absorb shocks, even as renewed geopolitical flare-ups or a broader risk-off episode could still test markets.

As the Middle East conflict causes widespread uncertainty for global financial markets, this paper offers a guide to the potential duration of volatility and the different impacts likely for emerging markets in the region and around the world.

Looking ahead to 2026, Franklin Templeton Fixed Income Head of European Fixed Income David Zahn says he is cautiously optimistic about Europe’s economic outlook.

The removal of Venezuela’s President Nicolás Maduro has materially improved the country’s outlook, according to Franklin Templeton Fixed Income Emerging Market Debt Director Nicholas Hardingham. He believes this action helps alleviate a long-standing political and economic impasse that had prevented reform, external engagement, and debt resolution.

The US fiscal year 2027 state budget season revealed a more nuanced municipal credit landscape, according to Jennifer Johnston, Director of Research, Municipal Bonds at Franklin Templeton Fixed Income. She explores the fiscal trends driving increasingly divergent credit outcomes across municipal issuers.

Municipal bonds finished the first half of 2026 with strong momentum, outperforming many other areas of the bond market despite record levels of new issuance. In this month's update, the Franklin Templeton Fixed Income team looks at what's driving demand, why municipal bond fundamentals remain resilient, and what investors should watch as we head into the second half of the year.

As the population ages, municipal credit is evolving. Jennifer Johnston, Director of Municipal Bond Research at Franklin Templeton Fixed Income, breaks down what the “Silver Tsunami” means for key healthcare sectors and investors in the final part of this two-part muni credit research series.

Birth rates are falling and municipal bond credits are diverging according to Jennifer Johnston, Director of Municipal (Muni) Bond Research, Franklin Templeton Fixed Income. Find out what this means for investors in part one of this two-part muni credit research series.

Private credit and public high yield can look similar on the surface, according to the Franklin Templeton Fixed Income high yield team. Both offer income and both carry credit risk. The bigger difference is how each market lets investors see price and manage that risk as conditions change.

On this month’s Talking Markets podcast, we sit down with guests Rick Polsinello from the Franklin Templeton Institute and Ben Barber of Franklin Templeton Fixed Income to discuss the US economy and the municipal bond market in 2026. They cover why they view the economy as resilient, some key investment themes for the year, and the growing opportunity within municipal bonds.

Distinguished by over 50 years of experience, the team of over 140 investment professionals brings together multiple sources of expertise in one global platform to offer strategies that address numerous client needs.

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