Global Macro Insights

June 2026

Perspective from Templeton Global Macro

June Overview

In the Middle East, the United States and Iran signed a Memorandum of Understanding on June 17 to extend the ceasefire, open the Strait of Hormuz and create a window for talks. The development gave market sentiment a lift, even though there was some conflict again closer to month-end. The US dollar (USD) strengthened in June, while the Japanese yen reached 40-year lows against the USD. Developed bond markets exhibited mixed performance, with US and Japanese yields slightly higher but Australian and most European yields lower. Emerging market (EM) local-currency bond yields were mostly lower, while hard-currency EM bond indexes gained in aggregate over the month. Inflation remains at relatively high levels across a number of countries, but some have seen price momentum slowing more recently. The generally increasing hawkishness seen among central banks over the past few months continued with some hiking—including rate increases from the European Central Bank (ECB) and Bank of Japan (BoJ) in June—but there are still some EMs that are easing. Growth data mostly continued to show some resilience, but pockets of weakness remain, especially in Europe.

Outlook

Uncertainty about growth and inflation stemming from the Iran conflict continues to cast a shadow over the global economic outlook, and we are closely monitoring developments on this front. In its latest World Economic Outlook, the International Monetary Fund (IMF) has modestly downgraded its global growth forecast, but notes significant downside risks, including a longer or broader conflict and worsening geopolitical fragmentation. It continues to project EM growth to significantly outperform advanced economies. Among EMs, we highlight that while resilience remains a notable broad factor, differing sensitivities and policy to the oil shock require careful country-by-country analysis. Uncertainty about the path of monetary policy remains high under current circumstances, with various central banks pointing to growth and inflation risks stemming from the Iran conflict. Despite the current geopolitical backdrop, recent developments appear to confirm our thesis of "global rewiring," and we expect global relations to continue shifting and realigning for some time yet.

General Market/Economic Overview

Global growth-related data releases have been fairly resilient despite the geopolitical backdrop, although the euro area (EA) remains a weak point. In the **United States**, first quarter (Q1) 2026 gross domestic product (GDP) growth was revised higher, to 2.1% quarter-over-quarter (q/q) seasonally adjusted and annualized (saar), from 1.6% prior and 2.0% in the advance estimate. US labor-market data continues to be quite firm, with May non-farm payrolls well above market expectations at 172,000. That said, employment gains remain concentrated in a few sectors (private health care, leisure and hospitality) while May also saw a large increase in government sector employment; the local government and tourism-related jobs gains may be related to the football World Cup. Consumer spending has held up, although consumer confidence indexes remain subdued, partly attributed to rising prices. In the EA, final Q1 GDP fell by 0.2% q/q, revised down from a small increase in the earlier estimates, with the main drag being a decline in investment. May European purchasing managers' indexes (PMIs) showed decreases in manufacturing and in the overall headline readings, though services edged higher. Consumer confidence was slightly higher but remains at weak levels. In other growth-related data, there was a notable fall in German factory orders for April. **Japan's** inbound tourism declined sharply in April compared to a year earlier, with the number of Chinese tourists remaining low and sharp falls in visitor numbers from Europe; the Middle East is a key air transit hub linking Europe and Japan. On the positive side, the second-quarter Japanese Tankan business sentiment survey rose significantly and also revealed that large firms intend to increase capital expenditure by an average of 11.5% in the current fiscal year. May retail sales were robust, likely reflecting strong wage growth and support from government cost-of-living subsidies. **China** plans to invest US$295 billion over the next five years for artificial intelligence (AI) data center build. Under the arrangement with the companies involved, at least 80% of the hardware and software would need to come from Chinese vendors.

Inflation data continue to print at relatively high levels in a number of countries, but while some countries are still seeing inflation trend higher, others are showing signs of topping out. US Consumer Price Index (CPI) inflation increased to 4.2% year-over-year (y/y) in May from 3.8% y/y in April. Core CPI inflation rose to 2.9% y/y in May from 2.8% y/y in April. By contrast, June EA preliminary headline inflation pulled back to 2.8% y/y from 3.2% y/y in May, but this is still high compared to levels of below 2% y/y at the start of 2026. In Japan, subsidies introduced under Prime Minister (PM) Sanae Takaichi's inflation-relief measures are restraining inflation. Japanese headline CPI edged up to 1.5% y/y in May from 1.4% y/y in April. The BoJ has introduced new inflation measures excluding "institutional factors," which suggest that underlying inflation remains above 2%. Notably, the measure that includes energy stood at 2.8% y/y in April and 2.7% in May, compared to 2.3% at the start of the year. Inflation in a number of other developed markets is currently above inflation targets, but some have started showing signs of peaking; for example, in Australia, CPI fell to 4.0% y/y in March compared to 4.6% y/y in May. Inflation in EMs generally remains well-behaved relative to inflation targets, but some recent releases have also shown upward moves as higher energy prices have started to affect the data. In China, recent producer price index (PPI) inflation—which has only recently come out of deflation—has exceeded CPI for the first time since 2022. This implies that industrial price pressure is building up but has not yet translated into noticeably higher consumer prices; if company margins are not to be squeezed, one might expect to see further price pressure in Chinese CPI in coming months. That said, **oil prices** fell sharply over June on developments in the Middle East—by 20% or more over the course of the month depending on the exact oil price measure—which should help provide some inflation relief going forward provided the more recent levels are sustained.

June monetary policy meetings resulted in mixed outcomes. While some EM central banks are still easing, other central banks across the globe either paused or tightened policy. In its first policy meeting under new Chair Kevin Warsh, the US Federal Reserve (Fed) held the fed funds rate steady at 3.50%-3.75% in June in a unanimous decision. The statement was significantly shorter than previous ones and removed the previous easing bias. The broader Federal Open Market Committee appears to remain split, with half the dots in the "dot plot" of Fed officials' forecasts indicating at least one hike by the end of the year. The ECB raised its policy rate by 25 basis points (bps) (to 2.40%) in a unanimous decision. The ECB acknowledged uncertainty in the outlook with upside risks for inflation and downside risks for economic growth, both dependent on the duration and intensity of the energy price shock. Most other developed European countries which held policy meetings in June left rates on hold, as did Australia. In a widely expected move, the BoJ raised its policy rate from 0.75% to 1.0%, the highest level since 1995. The BoJ cited rising producer prices driven by higher crude oil costs and warned that stronger inflation expectations could push underlying consumer inflation above its 2% target. Among EMs, Colombia raised the policy rate by 75 bps to 12%, while Brazil reduced rates by 25 bps to 14.25%. China, India, Thailand, Mexico, Poland and Hungary kept rates unchanged.

The USD rebounded somewhat further during June, with the USD Index (DXY) up by 2.3% during the month.[1] A key mover during the month was the Japanese yen (JPY), which depreciated by 2.1% to over 162 JPY against the USD by month end, its worst level in almost 40 years. Other developed market currencies depreciated against the USD over June as well. Most EM currencies also depreciated against the USD, with exceptions including the Colombian peso (which strengthened by 7.9%), the Indian rupee and some African currencies.

Sovereign bond yields fell in many countries in June, although the United States and Japan saw modest increases. In developed markets, the US 10-year Treasury note yield was three bps higher at 4.47%, while Japan's 10-year government bond yield increased one bp to 2.67%. By contrast, the benchmark (German) EA yield fell by eight bps to 2.86%; with the exception of France, other European yields (both within and outside the EA) also declined during June. Australian yields were also lower. Among EMs, bond yields mostly fell in Latin America, eastern Europe and South Africa, while they were mixed in Asia. **EM sovereign credit gained modestly further in June**, and the J.P. Morgan EMBI Global Index (JPM EMBIG) rose by 0.64%.[2]

Outlook and Positioning

Uncertainty about growth and inflation stemming from the US-Iran conflict has dominated the conversation about the global economic outlook. We are closely monitoring the latest developments. The IMF's April World Economic Outlook notched a modest downgrade to global growth, projected at 3.1% this year and 3.2% in 2027, on the assumption that the conflict remains limited in duration and scope.[3] The IMF once again predicts that EMs will outperform advanced economies in terms of growth, particularly emerging Asia.

We emphasize that the effects of the Middle East conflict on EMs are not homogeneous. Even as we highlight the general resilience of EMs through the various shocks over the past few years, we believe an assessment needs to take place on a country-by-country basis. Some of the factors that we consider important to evaluate include the energy intensity of production, initial macroeconomic conditions, transmission channels and policy responses.

Despite the conflict, political and geopolitical changes around trade and other economic relationships continue to support our thesis that global rewiring is underway. We expect global relations to continue shifting and realigning for some time yet. Events in June further confirm this trend. These include:

- The Group of Seven (G7) agreed in principle that no single country should supply more than 60% of their imports of rare earths by 2030, in an effort to reduce reliance on China. The G7 will also aim to further reduce dependence to 50% as soon as possible after 2030.
- South American trade bloc Mercosur and Japan formally launched negotiations for an Economic Partnership Agreement on June 30. The proposed free trade area would unite a market of approximately 400 million people with a combined GDP of US$7 trillion, integrating value chains for agricultural, livestock, and automotive goods.
- The United States announced it would not renew the US-Mexico-Canada Agreement (USMCA) agreement "in its current form" for a full 16-year renewal. This does not terminate the deal, which remains in force while the three countries continue talks, and the US plans to engage in bilateral talks with Canada and Mexico. The non-renewal will trigger annual reviews and creates uncertainty about the ultimate fate of the agreement, which has a current expiration date of 2036.

We continue to monitor local political developments, which in some instances may have significant effects on policy.

- Hungarian Prime Minister Peter Magyar's administration has filed legislation to unlock funds the European Union (EU) had blocked over concerns about corruption and rule of law under former Prime Minister Viktor Orban, following up on a deal Magyar struck with European Commission (EC) for the release of €16.4 billion in EU funds. The release of funds is subject to reforms taking place.
- In Colombia, right-wing candidate Abelardo de la Espriella won the presidential runoff election in June. Financial markets reacted positively, perceiving him as more business-friendly than his competitor.
- Brazil holds general elections in October. The United States will hold midterm elections in November.

As energy effects from the Middle East conflict spill over into inflation and growth, we see central banks responding, but different countries emphasize different parts of the growth/inflation tradeoff on policy. Some countries may yet ease further due to idiosyncratic factors, but it appears most are set to pause or tighten. A number of countries have already raised rates this year. We expect the BoJ to continue gradually normalizing rates. Market pricing on Fed and ECB rate moves has turned more hawkish, shifting from pauses or possible cuts to possible hikes. A significant number of EMs appear to be near or at the end of their rate reductions, with a few idiosyncratic exceptions.

We maintain the view that the USD is broadly overvalued. We expect further depreciation over the medium term, though we concede that there may still be some shorter-term USD strength around the current Middle East conflict. We believe the ongoing asset allocation shift into non-USD assets is likely a sustainable trend. We also look to carry as a source of return, which underpins our view of select opportunities in non-dollar assets in EMs in particular. Beyond carry, we also think the shift into EM assets is also a recognition both of their structural improvements and greater role in the world economy, rather than just a cyclical opportunity. We are also constructive on select developed market currencies where we see positive fundamentals.

The global fiscal outlook remains a structural concern, particularly among core developed markets, though some EMs' debt metrics have worsened as well. The costs of the Middle East conflict are likely to further increase pressure on the fiscal position in the United States. Even before the US-Iran war, the US Congressional Budget Office projected that large and growing deficits would cause government debt to increase from 101% of GDP this year to 120% in 2036, surpassing the previous high of 106% in 1946. A further supplementary budget in Japan as well as fiscal loosening in Europe to help fund the "ReArm Europe" program point to pressure being maintained on fiscal ratios in those regions as well. Consequently, we remain wary of longer-term bonds, which we would expect to bear the brunt of the implications of fiscal loosening.

At present, our core regional views remain largely unchanged, though we continue to monitor the effects of the Middle East conflict and individual country sensitivities.

- **We see value in specific countries within the Asia-Pacific region (including Australia) and Latin America.** In Asia, we generally focus on countries with positive fundamentals and undervalued currencies, as well as those we expect to be more insulated from tariff effects. We are cognizant of potential energy shock effects and are monitoring these. Reflecting our approach of country-by-country analysis, within the Asian region we also have a net-negative position in the Thai baht, which is particularly vulnerable to current conditions as an oil importer and where critical tourist receipts have been negatively affected by current events. In Latin America, we favor countries with prudent macroeconomic policies (including those where central banks have proved to be independent and proactive), relatively high yields and undervalued currencies.

- **We also see opportunities in certain emerging and frontier markets in both local-currency and hard-currency assets. In particular, we have exposure in some portfolios in select African countries** where we believe reform efforts have resulted in notable improvements in fundamentals and the economic outlook. South Africa and some other African countries benefited from credit ratings upgrades last year. We also have holdings in some portfolios in select frontier Asian markets. These all also offer attractive opportunities for potential yield pickup, in our analysis.

Recent developments relating to the outlook for select countries in our portfolio include:

- The EC announced that it assesses the Greek economy as no longer experiencing imbalances as its macroeconomic vulnerabilities have declined over the years. The EC has thus removed Greece from the "Macroeconomic Imbalance Procedure" monitoring category it had been in as a result of the Greek crisis which began in late 2009.
- Fitch upgraded South Africa's credit rating to BB from BB-, highlighting prudent fiscal management and progress on fiscal consolidation.
- India announced a raft of significant measures with the broad goal of attracting inflows, strengthening the balance of payments, and stabilizing markets after the rupee depreciated in the wake of the US-Iran war energy shock. The policies aim to attract foreign inflows by easing access for overseas investors in government bonds and equities and cutting capital gains taxes on debt investments by global funds, among other measures. On the growth front, India is still growing robustly, with 2026 Q1 GDP estimated at 7.8% y/y.
- After consultations with the US trade representative, Mexico's Economy Ministry said that approximately 85% of Mexican exports to the United States would remain exempt from the proposed 10% forced-labor tariff because they qualify for preferential treatment under USMCA rules of origin. The measure will also exclude products already subject to Section 232 tariffs, including automobiles, steel, and aluminum.

In local-currency positions, we hold select countries in both developed markets and EMs. Our currency positions focus on potential upside based on our assessment of long-term undervaluation against the USD. These countries historically have had robust balances of payments and growth fundamentals. In bonds, we hold positions in countries where we identify supportive fundamentals. These might cover a range of factors, such as inflation and interest-rate outlooks, fiscal progress and other economic reforms, and/or anticipated economic benefits from reshoring or other deeper integration into the global economy. We aim for a relatively high overall portfolio yield by holding higher-yielding, local-currency positions in specific emerging and (where relevant) frontier markets that we view as having attractive risk-adjusted yields.

In hard-currency-denominated sovereign credit positions, we favor emerging (and, where relevant) frontier markets with improving fundamentals and policy responses.

We always closely monitor idiosyncratic factors in different countries to identify relative valuation opportunities. We remain highly selective at the sovereign level, given significant variations in economic fundamentals and policy responses, particularly under current circumstances.

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ENDNOTES

1. Source: Bloomberg. As of June 30, 2026. The DXY is a measure of the value of the dollar against six foreign currencies: the euro, Swiss franc, Japanese yen, Canadian dollar, British pound and Swedish krona. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. They do not include fees, expenses or sales charges. Important data provider notices and terms available at www.franklintempletondatasources.com.
2. Source: Bloomberg. As of June 30, 2026. The JPM EMBIG tracks total returns for US dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities. **Past performance is not an indicator or a guarantee of future performance.** Indexes are unmanaged and one cannot invest directly in an index. They do not include fees, expenses or sales charges. Important data provider notices and terms available at www.franklintempletondatasources.com.
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