



Macro Pulse for October 12

- As of Sunday, October 12, the U.S. government is on day 12 of its shutdown. We do not believe the current length of shutdown creates undue stress on the economy or markets beyond [what we shared](#) when the shutdown began. Looking ahead, delays caused by air traffic control staffing shortages, as well as the first military paycheck that would be missed on October 15, may represent catalysts of political pressure for the shutdown to end.

Prime minister roulette: two fallen governments, one common problem

Last week was marked by two sets of yield curve-shaping events.

In **France**, Macron's PM pick Sebastien Lecornu had been in office less than a month and named his cabinet just 14 hours before resigning last Monday. Much of this government turnover is pure politics, the latest in a period of government chaos since President Macron called snap parliamentary elections last year. But a contributing factor was the conservative portion of the coalition government rejecting a pick for defense minister, Bruno Le Maire, who the conservatives believe allowed the French budget to spiral out of control under his previous watch as finance minister.

In **Japan**, Sanae Takaichi emerged as the new leader of the ruling Liberal Democratic Party (LDP), and her parliamentary confirmation as PM on October 15 appeared to be a formality. She hopes to create a legacy as Japan's Iron Lady, akin to the UK's Margaret Thatcher both in serving as the nation's first female premier and in her staunch conservatism. But last Friday, the LDP's junior coalition partner broke ranks after 26 years, throwing the PM bid into question. Should Takaichi-san still emerge victorious after the collapse of the ruling coalition, the Abe protégé favors greater fiscal spending and more dovish monetary policy but faces too-warm inflation and a Bank of Japan (BOJ) biased to raise interest rates.

Political dysfunction and economic discontent have been simmering in both countries for years. While there are limitless drivers of this discontent, we've observed that in these cases and in others, including the U.S. and UK, *debate about the role of the government in the economy* is front and center. Investors, in particular, have been focused on the amount of government spending and where it's going, interest paid on government debt, and the role of central banks. Accordingly, we find this a perfect moment to discuss the sustainability of government spending and debt in both France and Japan, allowing us to unpack near and medium-term market implications.

Framing the discontent: our take on French and Japanese debt sustainability

When we work in frameworks, rather than point-in-time forecasts, we set ourselves up for structured thinking when new scenarios hit our desks. In this case, we are able to apply our debt sustainability

framework, launched in our [megatrends research](#) this summer, to a new country: France, in consultation with our partners at Candriam. Moving clockwise around the framework:

The most acute and self-evident area of risk in France's debt management is its lack of **policy credibility**. France earns a high risk ranking when it comes to its government's commitment to spend responsibly and service the national debt, akin to that of the United States. But a key factor buying France time is that **debt service is affordable**. Interest France pays on its sovereign debt is running at 7% of the French budget (vs 13% in the U.S.) and rising very slowly, thanks to an average public debt maturity of 9 years (vs 6 years in the U.S.).

France has the **largest individual capital market in Europe**. Its **strong central bank backstop** in the ECB and the **use of French sovereign bonds** (OATS, or *obligations assimilables du Trésor*) **as collateral in the euro area money market** provide a solid source of demand for French debt. And while much of the French budget is used on social programs rather than investments intended to foster – or “**crowd in**” **private sector spending**, we do not see imminent threats stemming from inefficiency of spending.

Together, these factors show investors that France's current chaos is a political crisis, not a debt crisis.

Turning to Japan: the potential new prime minister's goals, including higher government spending and lower interest rates, are in tension with both her mandate to fight discontent with the cost of living (inflation) and the BOJ's goals to normalize policy. No country has levered up its central bank like Japan has, with BOJ now accounting for over half of Japanese government bond (JGB) ownership. Just a few weeks ago, the BOJ's plan to roll off its ETF equity holdings *over the course of a century* still met some market pushback.

We see the potential new government's resistance of this normalization as a key factor exacerbating Japan's Achilles heels of debt management: its reliance on the BOJ to purchase government debt, and its ongoing use of the BOJ to support capital markets functioning. Additional spending could force the BOJ to re-accelerate its purchases of JGBs, and possibly even re-institute yield curve control to keep interest rates at levels affordable for government debt service.

Allocation takeaways: the global spread of steeper curves

In the very near term, we see the fiscal and political dynamics in Japan to be constructive for equities, supported by expectations for stronger government spending, and negative for Japanese bonds, due to upward pressure on interest rates. In France, we've seen a modestly negative reaction in both equities and fixed income, but expect this impact to be relatively contained.



Medium-term allocation takeaways lie in how these shifts appear in sovereign yield curves. **We see a structural yield curve steepening tendency** in Japan and France, as well as in the U.S. and UK. On the short end: we see many governments trending toward keeping short rates compressed to spur economic activity. Higher government spending, higher issuance, and higher knock-on risks, including to inflation, put a floor under long rates. We see this in the key components of long-term interest rate behavior:

Emerging dynamics in drivers of long-term interest rates

Source: New York Life Investments Global Market Strategy, October 2025. For illustrative purposes only.

It's worth noting that our case for steeper sovereign curves is a medium-term view, not a tactical one. In our view, the rally in long rates this year – most visible in Treasuries but not exclusive to them – is contrary to long-term risks, but we maintain a large range for the 10Y yield (3.75-4.5%) to allow for short-term fluctuations.

From an allocation perspective, **steep curves are not a bad thing**, barring bear steepeners (example: depressed growth expectations pushing short rates down; existential risks pushing long rates up). Interpretation aside, normalized or even steep curves can foster an environment of healthy credit creation, supportive of banks' net interest margins and strong performance of financials within public equities.

Steepening pressure on curves can also be an opportunity for direct lending and private credit. If longer-dated credit is expensive for borrowers, companies may choose to shorten the maturity of their debt and roll it over more frequently – potentially creating a mismatch between asset and liability duration. Private credit capabilities can mitigate this pitfall, with close lender-borrower relationships and covenants supporting longer-maturity loans.

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