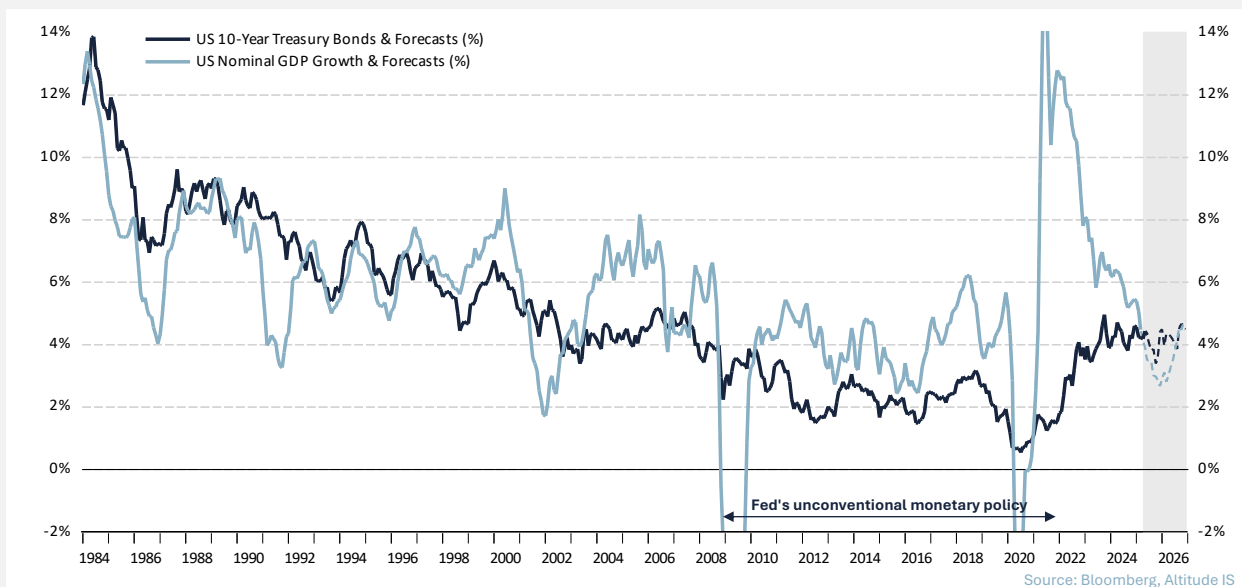


The flexiweekly that reaches new heights - published on 30 June 2025

"BONDS COULD HOLD A (VERY) PLEASANT SURPRISE"

- Neglected by investors, bonds deliver non-negligible returns
- To gauge the scale of the gains, the question remains: how far will central banks go?
- The asymmetry between expected return and inherent risk is very favourable
- Last but not least, the steepening of the yield curve is not yet complete

CHART OF THE WEEK: "Long-term interest rates converge towards nominal growth"



BOND MARKET ANALYSIS

One of the comments that regularly comes up when talking about asset class performance is that **"the contribution of bonds is disappointing"**. While this was clearly true in 2022, it has not necessarily been the case in the first half of 2025. In contrast to that annus horribilis, when fixed income assets fell from 12% to 20% (see Fig. 3), the return on investment has exceeded 2% since 1st January 2025. Is this disappointing? Yes and no.

- Yes, because the absolute return remains low, particularly when compared with the 8.4% return on equities. What's more, holding long-dated bonds has not earned any more than holding cash for a



long time, and the coupons paid (1.6% over 6 months) have barely offset the rise in the cost of living and inflation (1.8% over six months).

- No, because for an asset with very low risk and very low volatility, their return is quite reasonable. So not only did bonds contribute to the overall performance of portfolios, but they also helped to reduce the maximum loss recorded in April when stock market indices experienced a bear market.

Fig. 2 - 10-year bond performance

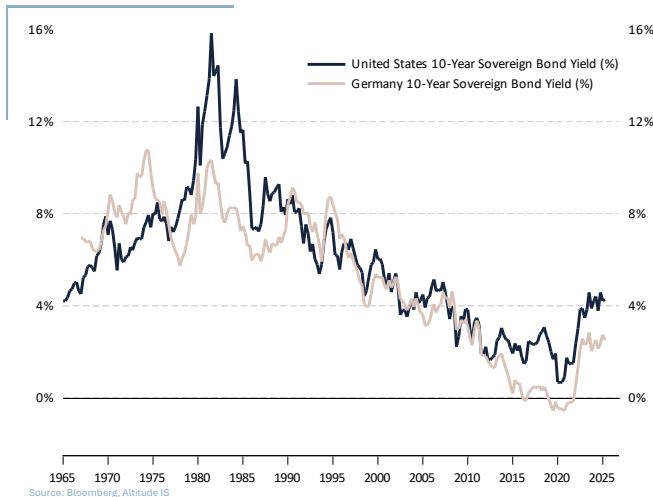
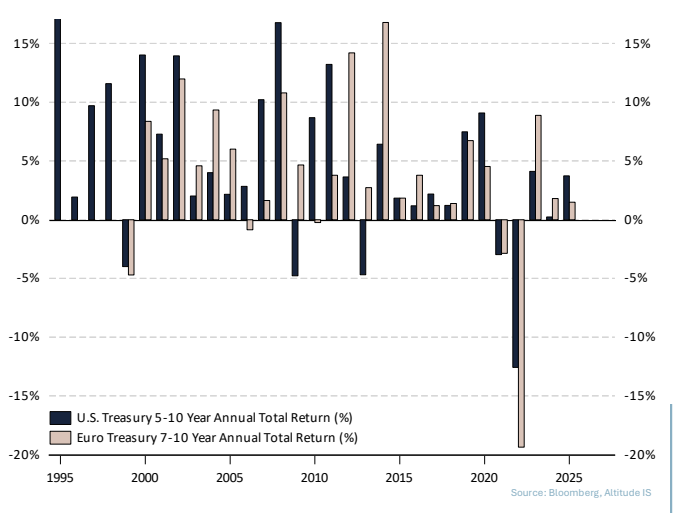


Fig. 3 - 10-year bond performance



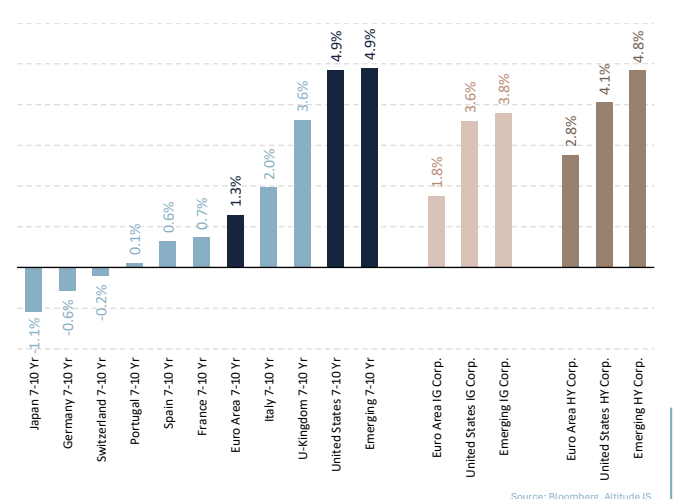
- No, because in a context where rates have fluctuated sideways, achieving a positive performance is already satisfactory. The situation is very different from that of the previous decade, when interest rates were close to zero (see Fig. 2). Today, a sign that the situation has normalised, is that coupons and the roll-down effect remunerate and 'protect' bond investors. As a result, **the asymmetry between the expected return and the inherent risk works in favour of sovereign bonds** (see Fig. 4). For a 10-year Treasury, for example, yields would have to rise by 75 basis points for performance to be zero over the next 12 months. Conversely, a fall of -75 basis points would generate a double-digit return.

Fig. 4 - Expected performance matrix

Targeted 10-Year Yield by June 2026	Maturity						
	2-Year	3-Year	5-Year	7-Year	10-Year	20-Year	30-Year
6.00%	1.9%	0.6%	-2.1%	-3.9%	-6.8%	-12.9%	-17.3%
5.50%	2.4%	1.5%	-0.3%	-1.5%	-3.6%	-8.1%	-11.7%
5.00%	2.9%	2.4%	1.4%	0.9%	-0.2%	-2.8%	-5.5%
4.75%	3.1%	2.8%	2.3%	2.2%	1.5%	-0.1%	-2.1%
4.50%	3.3%	3.3%	3.2%	3.4%	3.3%	2.8%	1.5%
4.27%	3.6%	3.7%	4.1%	4.6%	5.0%	5.6%	4.9%
4.00%	3.8%	4.2%	5.1%	6.1%	7.0%	9.0%	9.2%
3.75%	4.1%	4.7%	6.0%	7.4%	8.9%	12.2%	13.5%
3.50%	4.3%	5.2%	7.0%	8.8%	10.8%	15.6%	17.9%
3.00%	4.8%	6.1%	8.9%	11.5%	14.8%	22.9%	27.7%
2.50%	5.3%	7.1%	10.8%	14.4%	19.0%	30.7%	38.7%

Source: Bloomberg, Altitude IS

Fig. 5 - 2025 performance, by category





- No, because the potential gains for this asset class remain intact. In case of a sudden economic slowdown that leads to a recession, central banks will cut their key rates even further. As a result, falling bond yields all along the curve will generate a very good return on investment. **It is not impossible that during the next crisis, long-term sovereign bonds will post double-digit annual returns.**

Within the bond universe, not all categories are equal (see Fig. 5). As usual, emerging markets performed very well, including those denominated in hard currencies such as the dollar or the euro. They are followed by US sovereign and corporate papers, despite the introduction of tariffs and the downgrading of the US AAA rating. In comparison, the Eurozone pales into insignificance, with its bonds delivering half of this performance. The increase in German military spending announced in March slowed the fall in yields and hence the positive performance of bonds. However, this shock was cushioned by the rest of the countries in the zone, and in particular Spain and France, which delivered very good performances. In the heart of the Alps, Switzerland is in negative territory, mainly because the absolute yield is very low, but also because the return on investment was exceptional last year. There was less 'juice' left. Japan is a very specific case. The Empire of the Rising Sun is suffering from the normalisation of its monetary policy. The decision to abandon the exceptional yield curve control strategy has mechanically favoured a rise in rates, meaning that yen-denominated bonds have underperformed. Finally, in corporate bonds, it is interesting to note that the credit component is not paying off. For a higher risk of default, high-yield bonds did not deliver much more than the investment-grade bonds, which themselves performed only slightly better than Treasury bills.

Fig. 6 - Central banks' rate cuts process

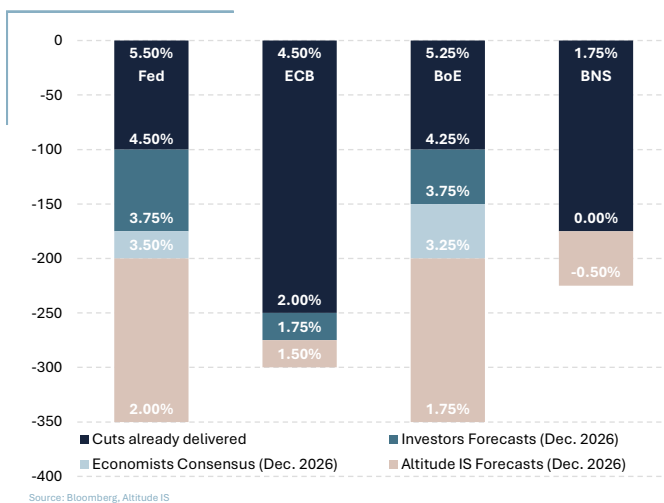
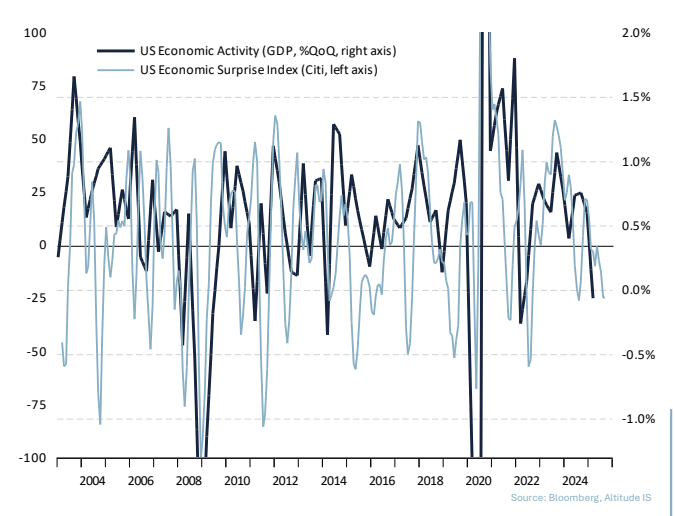


Fig. 7 - US GDP & economic surprise indicator



Our proprietary econometric models allow us to look ahead, drawing up a clear scenario for the next 18 months:

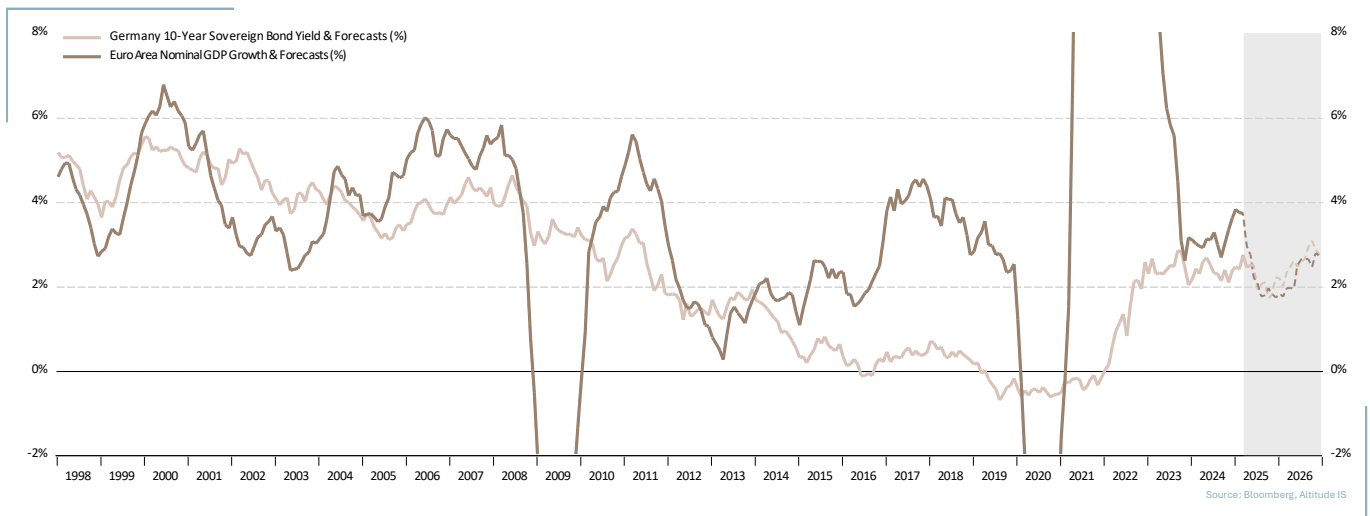
- The cut in short-term interest rates by central banks is not over and will be more significant than expected by the consensus. For once, the European Central Bank (ECB) is ahead of its peers, but it still has a little room for manoeuvre to act two more times, so as to fix the cost of money at 1.5%, compared with 2% at present and 4.5% a year ago (see Fig. 6). In the United States, the Federal Reserve (Fed) has been forced to wait to counter persistent inflation above all, because of the modest deterioration in the job market. In the coming quarters, it will have to act very aggressively. It is not that it will end up giving in to Donald Trump's media pressure, but rather that it will seek to avoid a hard landing for its economy. For the record, growth was negative in the first quarter and



the economic surprise index indicates that it will be very weak in the second (see Fig. 7). It is only a short step to the conclusion that the recession has already begun.

Some Fed governors are seriously beginning to envisage a crisis scenario. Just 10 days ago, Christopher Waller said: "If you're starting to worry about the downside risk [to the] labour market, move now, don't wait". Three days later, Michelle Bowman also said she was in favour of a rate cut in July. Jerome Powell may say that he is in no hurry to act until he knows the impact of the tariffs on US inflation, but the clan of "doves" is growing. This was all it took for the probability of a rate cut at the next Monetary Policy Committee to rise from 8% to 25%.

Fig. 8 - Eurozone 10-year yields & nominal growth



- The fall in long rates will also be visible, but less than proportional to that in short rates. Not only are they less volatile than short rates, but they peaked in October 2023. By going from 5% to 4.3%, they have already fallen by 70 basis points in 21 months, which means they are probably halfway there. **To complete this sequence, they still have to converge towards the nominal growth of the economy, 3.5%. In the Eurozone, the target is 1.7%.** Apart from the period of extraordinary monetary policy, between 2012 and 2021, this relationship has worked well (see Chart of the Week & Fig. 8). It should not be underestimated.

Timing is also important. It is still too early for investors to be projecting an acceleration in activity and inflation. In the past, long rates only began to rise when Fed rates were on average 160 basis points below 10-year rates. We are only at 50 basis points today. We will therefore have to wait for at least four more rate cuts from Jerome Powell for 10-year bond yields to rise. Duration will therefore continue to be favoured by investors.

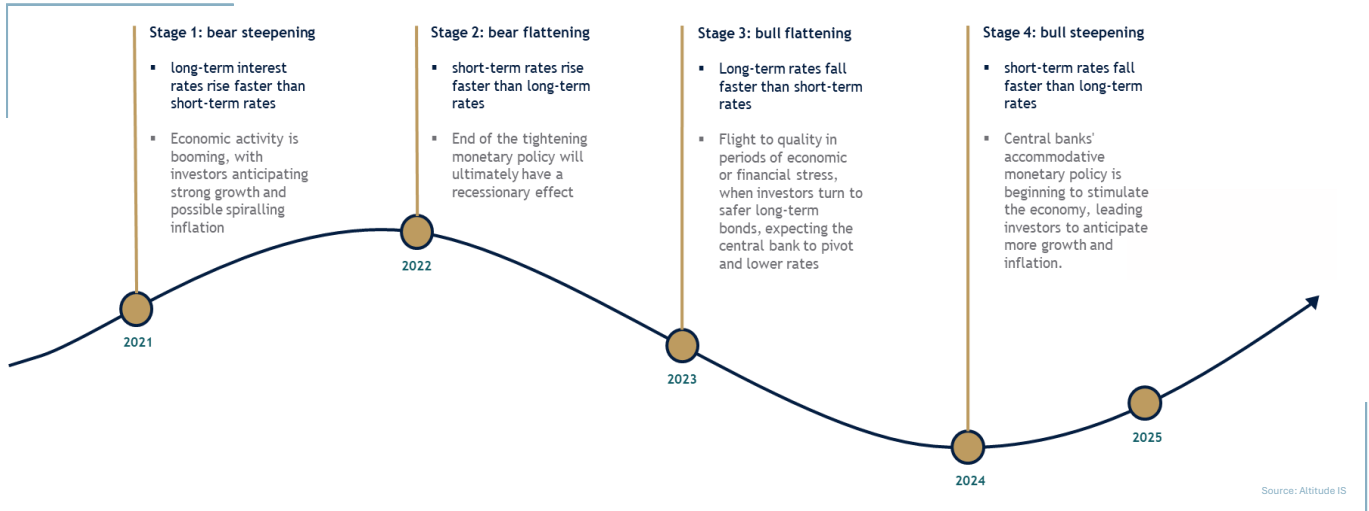
- The yield curve should steepen further. As a reminder, each phase of the economic cycle allows the curve to steepen, flatten or even invert (see Fig. 9). In a 'normal' environment, long rates are higher than short rates. The preference for the present encourages investors to demand a higher return in order to agree to tie up their money for longer. This rationality is only called into question when they anticipate that rates will fall sharply. In this specific case, they prefer to secure the current yield for a long time. This was the case in 2022 and 2023, for example.

Sooner or later, the yield curve will steepen again, in line with the preference for the present. This usually happens when the central bank cuts its key rates to support economic growth and inflation.



During this initial phase, short rates fall faster than long rates, a process known as bull steepening. It is only once the central banks have acted several times that investors begin to anticipate the next phase, when growth and inflation return and long rates rise faster than short rates: this is the 'bear steepening'. This sequence must be respected. The two phases rarely overlap. Have we ever heard of a bull/bear steepening? No. All steepening strategies still have a bright future ahead of them.

Fig. 9 - Yield curve cycle



In this environment, where yields are gradually easing and the slope of the curve remains shallow, **investors will be inclined to combine immediate carry with future spreads.** 5-, 7- and 10-year US and French sovereign bonds will certainly provide a liquid core on which to draw. Steeperers for 2-10 years or 5-30 years, structured via swaps, swaptions or futures contracts, should also be very popular in order to capture the expected steepening of the yield curve. They provide a high degree of diversification without increasing duration or credit risk. Overall portfolio volatility therefore tends to fall.

Two specific strategies could also continue to attract attention. Hybrid corporate bonds, which are generally recalled after five years for structural reasons, offer a very attractive risk/return profile. Moreover, the lower interest rates fall, the greater the incentive for issuers to exercise their call to refinance at a lower cost. The price of the bond then appreciates rapidly. CLNs on investment-grade European bonds (iTraxx) perform well even when the economy enters a slowdown phase. The risk is limited and diversified, and only becomes penalising beyond the selected default threshold. In Europe, most Investment Grade bonds in difficulty are downgraded but do not default. Ultimately, hybrids and iTraxx offer a robust return without having to resort to High Yield, which has become expensive given the risks it carries, and which could remain on the fringes of investments until it yields more.

Around these core strategies, the most expert investors will probably try to top up their allocation with Swiss Confederation bonds, in anticipation of the forthcoming negative interest rates. As for the more daring, they could even take an interest in Japanese bonds (provided they hedge the currency risk), before the Bank of Japan is once again forced to position itself as a buyer of JGBs as a last resort. Private investors, both Japanese and foreign, no longer want them, given the country's debt. However, the world's second-largest bond market must be prevented from defaulting at all costs.



Conclusion:

Bonds play a perfect role in asset allocation. They deliver regular, predictable returns. As long as the stock market is generating substantial profits, this advantage seems insufficient. However, it is what keeps risk in the portfolio. And when the next bear market hits, especially if the Fed cuts rates more than the consensus expects, it will be bonds that cushion the blow. Some of them could even deliver double-digit returns.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	914.8	71.57	3.3%	4.0%	9.9%	18.0%	22.8%
USA (S&P 500)	6 173	70.21	3.5%	4.4%	5.6%	25.0%	26.3%
USA (Dow Jones)	43 819	67.89	3.8%	3.7%	3.9%	15.0%	16.2%
USA (Nasdaq)	20 273	70.74	4.3%	5.7%	5.4%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	563.4	54.01	1.9%	-1.0%	14.5%	10.2%	19.5%
UK (FTSE 100)	8 799	55.31	0.3%	0.5%	9.9%	9.6%	7.7%
Switzerland (SMI)	11 980	44.25	0.9%	-2.8%	6.4%	7.5%	7.1%
Japan (Nikkei)	40 762	72.47	4.7%	6.6%	1.7%	21.3%	31.0%
Emerging (MSCI)	1 229	68.29	3.4%	6.0%	16.0%	8.0%	10.2%
Brasil (IBOVESPA)	136 866	49.53	-0.2%	-1.9%	13.8%	-10.4%	22.3%
Mexico (IPC)	57 392	53.23	2.0%	-1.6%	18.4%	-11.0%	22.4%
India (SENSEX)	83 811	66.90	2.2%	3.6%	8.5%	9.6%	20.3%
China (CSI)	3 922	57.77	2.2%	2.9%	0.9%	18.2%	-9.1%
Com. Services (MSCI World)	142.3	72.69	5.4%	6.3%	14.6%	31.9%	38.1%
Cons. Discretionary (MSCI World)	423.9	61.22	4.0%	1.0%	1.2%	20.7%	29.5%
Cons. Staples (MSCI World)	293.5	45.19	0.3%	-1.8%	9.2%	4.7%	3.2%
Energy (MSCI World)	249.5	54.60	-2.4%	4.6%	6.0%	2.9%	6.0%
Financials (MSCI World)	206.6	69.15	3.6%	3.2%	16.9%	25.1%	16.4%
Health Care (MSCI World)	348.6	51.58	1.4%	1.6%	1.0%	1.5%	4.1%
Industrials (MSCI World)	438.9	70.24	3.8%	3.2%	17.8%	12.8%	22.5%
Info. Tech. (MSCI World)	829.4	77.19	4.7%	8.5%	8.3%	31.9%	51.4%
Materials (MSCI World)	336.7	59.33	2.7%	1.5%	11.5%	-7.7%	12.6%
Real Estate (MSCI World)	991	50.36	0.0%	0.9%	4.2%	-0.4%	5.3%
Utilities (MSCI World)	182.0	59.77	1.7%	1.5%	15.4%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.50%	67.20	1.0%	1.8%	7.0%	-1.7%	5.7%
USA (Sovereign)	4.07%	62.24	0.6%	1.3%	3.5%	0.6%	4.1%
Euro Area (Sovereign)	2.74%	48.26	-0.2%	-0.1%	0.4%	1.9%	7.1%
Germany (Sovereign)	2.32%	43.82	-0.5%	-0.2%	-0.8%	0.6%	5.6%
UK (Sovereign)	4.43%	60.87	0.3%	1.7%	3.5%	-3.0%	5.6%
Switzerland (Sovereign)	0.59%	36.91	-0.3%	-1.3%	-0.5%	5.4%	7.9%
Japan (Sovereign)	1.19%	52.58	-0.2%	0.3%	-1.3%	-2.1%	0.9%
Emerging (Sovereign)	6.66%	76.80	0.9%	1.9%	5.1%	7.0%	11.0%
USA (IG Corp.)	5.06%	65.69	0.5%	1.4%	3.7%	2.1%	8.5%
Euro Area (IG Corp.)	3.12%	56.04	-0.1%	0.2%	1.7%	4.7%	8.2%
Emerging (IG Corp.)	6.47%	77.13	0.5%	1.3%	4.0%	7.0%	6.7%
USA (HY Corp.)	7.10%	85.09	0.6%	1.6%	4.3%	8.2%	13.4%
Euro Area (HY Corp.)	5.55%	62.86	0.1%	0.4%	2.7%	8.2%	12.1%
Emerging (HY Corp.)	8.17%	79.82	1.0%	1.9%	5.1%	14.9%	13.1%
World (Convertibles)	487.8	76.40	2.3%	3.3%	10.8%	9.4%	12.3%
USA (Convertibles)	638.1	70.54	2.1%	2.9%	6.6%	10.1%	14.6%
Euro Area (Convertibles)	286.4	70.43	1.4%	1.2%	23.1%	14.7%	7.3%
Switzerland (Convertibles)	281.0	57.63	0.8%	0.7%	16.7%	-10.5%	5.8%
Japan (Convertibles)	232.7	72.32	1.1%	1.5%	2.7%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 638	77.10	n.a.	2.4%	1.7%	11.1%	7.8%
Macro	1 326	61.23	n.a.	-0.1%	-1.2%	7.4%	1.6%
Equity Long Only	2 236	65.27	n.a.	4.5%	1.1%	12.0%	15.9%
Equity Long/Short	1 720	74.76	n.a.	3.7%	2.6%	14.0%	7.7%
Event Driven	1 742	74.64	n.a.	2.0%	1.0%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 692	92.50	n.a.	2.0%	2.5%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 731	86.21	n.a.	3.4%	4.0%	9.8%	7.8%
Credit	1 636	96.21	n.a.	1.1%	2.5%	8.5%	8.1%
Credit Long/Short	1 677	100.00	n.a.	1.6%	3.0%	10.0%	11.2%
Commodity	1 883	92.83	n.a.	2.1%	5.3%	14.7%	7.3%
Commodity Trading Advisors	1 272	46.31	n.a.	-1.3%	-5.2%	7.9%	-3.6%
Volatility							
VIX	16.32	40.69	-20.9%	-13.9%	-5.9%	39.4%	-42.5%
VSTOXX	17.40	42.29	-22.6%	-6.3%	2.4%	25.3%	-35.0%
Commodities							
Commodities (CRB)	567.8	n.a.	0.5%	1.6%	5.8%	5.1%	-8.0%
Gold (Troy Ounce)	3 278	n.a.	-2.7%	-0.3%	24.9%	27.2%	13.1%
Silver (Troy Ounce)	36.13	n.a.	0.1%	3.9%	25.0%	21.5%	-0.7%
Oil (WTI, Barrel)	65.52	n.a.	-12.6%	7.6%	-8.6%	0.1%	-10.7%
Oil (Brent, Barrel)	69.01	n.a.	-11.7%	7.4%	-6.9%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	97.23	35.14	-1.2%	-2.1%	-10.4%	7.1%	-2.1%
EUR	1.1718	70.93	1.2%	2.4%	13.2%	-6.2%	3.1%
JPY	144.09	53.59	1.4%	-1.0%	9.1%	-10.3%	-7.0%
GBP	1.3719	65.46	1.4%	1.3%	9.6%	-1.7%	5.4%
AUD	0.6536	57.14	1.2%	0.6%	5.6%	-9.2%	0.0%
CAD	1.3681	55.29	0.4%	0.2%	5.1%	-7.9%	2.3%
CHF	0.7990	70.13	1.7%	2.3%	13.6%	-7.3%	9.9%
CNY	7.1647	62.58	0.2%	0.5%	1.9%	-2.7%	-2.8%
MXN	18.815	66.08	1.6%	2.1%	10.7%	-18.5%	14.9%
EM (Emerging Index)	1 853.5	72.64	1.0%	1.4%	7.3%	-0.7%	4.8%
XBT	108 483	n.a.	0.6%	3.5%	15.8%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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