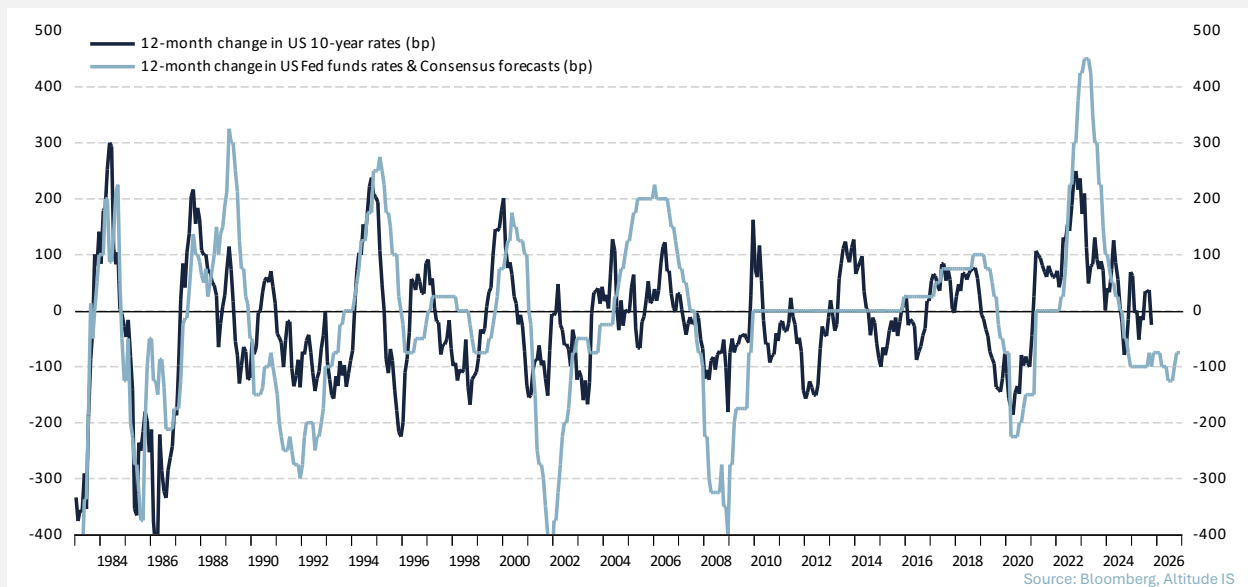


The flexiweekly that reaches new heights - published on 27 october 2025

"RISK-FREE ASSET SET TO MAKE A COMEBACK"

- Investors were deeply affected by the poor performance of 2022
- US bonds failed to offset stock market losses
- Today, it is the US's excessive debt that makes them unattractive
- However, Treasuries will generate excellent returns in the event of another crisis

CHART OF THE WEEK: "A rise in long-term rates? Seriously?"



BOND MARKET ANALYSIS

The value of a bond reacts inversely to changes in interest rates. In practical terms, if yields fall, existing bonds gain in value because newly issued securities offer lower returns. The opposite is also true. Furthermore, long-term bonds are more sensitive to these interest rate fluctuations because the period until repayment of the principal is longer. **In October 2023, 10-year sovereign bond yields reached their peak for the cycle.** This situation is advantageous for investors because, since that date, bond performance has been positive: +11.6% (see Fig. 2). **However, if you ask around, very few investors are aware of this.** On the one hand, the return on investment is considered disappointing and, on the other



hand, it follows the year 2022, described as *annus horribilis*, when bond prices fell by -14.8%. The recent positive performance, which is perceived as frustrating, has therefore not been enough to make people forget the trauma of the past.

Fig. 2 – Sovereign bond performance expectations

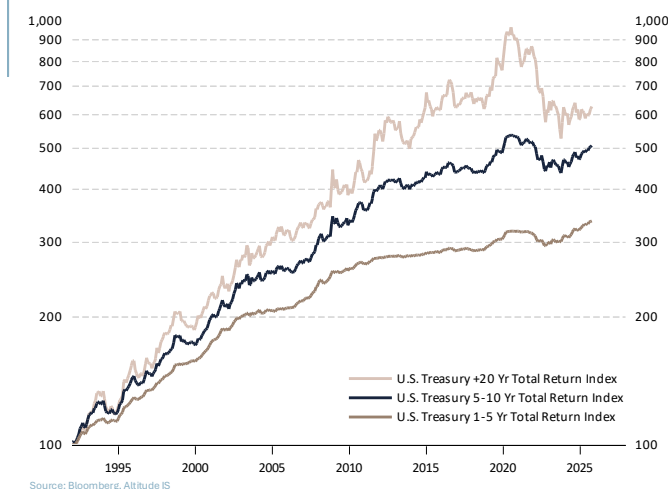
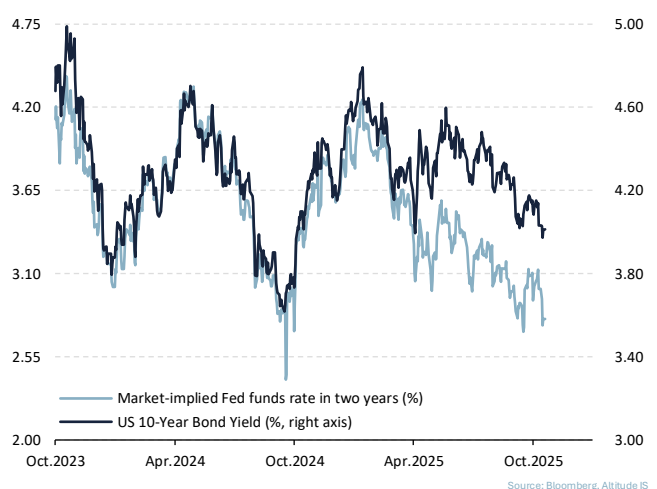


Fig. 3 – 10-year rates and short-term rate expectations



Between March and August 2025, 10-year rates appeared to be treading water (see Fig. 3). On the one hand, they were pulled down by falling inflation and weak economic momentum, while on the other, they were supported by a growing risk premium as tariffs weighed on the US economy and the sustainability of public debt was called into question. **Since September, and even more so in October, the decline in long-term interest rates seems to be (finally) accelerating.** Not only has the risk premium stabilised, but the US Federal Reserve (Fed) has resumed its monetary policy easing.

Investors anticipate two further rate cuts by the Fed this year and three next year, which would reduce the key policy rate from 4.25% to 3%. Our econometric models anticipate even more, as the trough could be reached with a policy rate of 2%. Some may argue that this forecast is unrealistic, but given the rapid deterioration in the labour market and the disinflationary impact of rents, this scenario is becoming increasingly credible. In its latest *Beige Book*, the US central bank echoed this analysis. It states that in most US states, an increasing number of employers have reported reducing their workforce through layoffs or natural attrition without replacement. In addition, companies are more willing to use temporary or part-time workers rather than hire full-time employees. The Fed could therefore further ease its monetary policy to support the economy. Any further cut in Fed rates should lead to a steepening and downward shift in the entire yield curve (see Fig. 4). **Only once monetary policy easing is complete will long-term rates have the opportunity to rise again. We are a long way from that, but everything in good time.**

Of the 13 monetary easing cycles experienced since 1966, yields on 10-year US Treasury bonds have risen in only four cases. This is precisely what happened in 2024 (see Fig. 4). In all other cases, long-term rates tended to fall (see Chart of the week). Admittedly, the high level of US debt continues to worry investors, but we must remain reasonable. In the worst-case scenario, as we have often demonstrated, Uncle Sam will monetise its public debt rather than default. It is therefore highly likely that, with or



without a debt crisis, if the Fed cuts rates by a further 100 basis points, bond yields will fall (see Fig. 5). **The potential for gains on sovereign bonds remains intact, high and low-risk.**

Fig. 4 – Impact of rate cuts on 10-year yields

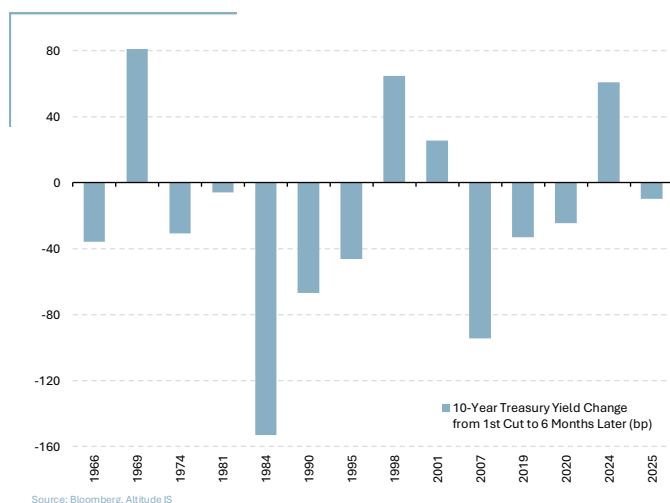
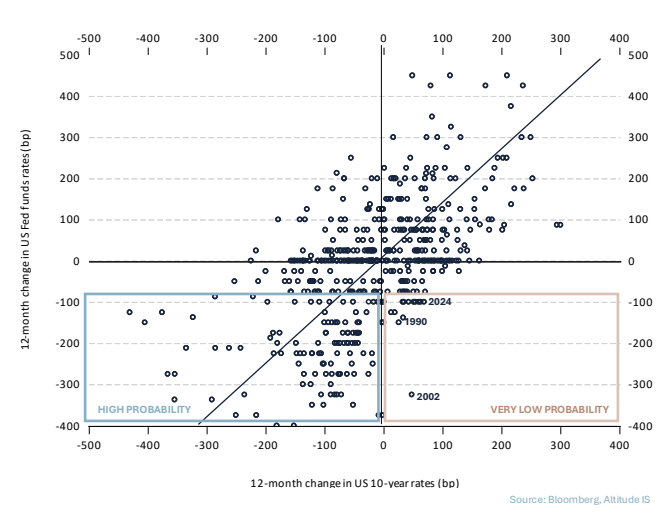


Fig. 5 – Fed rates vs 10-year rates



By changing its key interest rates, the Fed indirectly influences long-term rates, but it can also do so very directly. According to the *Federal Reserve Act*, passed by Congress on 23 December 1913 and signed into law by President Wilson on 29 December 1913, **monetary policy has three objectives: full employment, price stability and moderate long-term interest rates.** In a healthy, conventional economic environment, this is referred to as a dual mandate because the Fed considers moderate long-term rates to be a result of the success of the first two objectives, rather than a separate policy. Jerome Powell reiterated this last month at the press conference following the monetary policy meeting. However, there may be times when this third mandate requires independent and deliberate action. This was the case when depression loomed in March 2009 during the subprime crisis, or when debt threatened to become unsustainable due to the war effort between 1942 and 1951. **Today, the interest burden on the debt has become so high that some, such as Treasury Secretary Scott Bessent and Fed Governor Stephan Miran, would like to see more control over long-term rates.**

In reality, a closer look at the Fed's balance sheet reveals that the US central bank is already engaged in its third mandate, directly moderating long-term interest rates. To understand this properly, it is important to remember that the US central bank bought bonds on a massive scale between 2009 and 2022 in order to support the economy and ensure the stability of the financial system. This was the period of *quantitative easing* (QE). Since 2023, it has been seeking to normalise the situation and has stopped rolling over maturing bonds. This is *quantitative tightening* (QT).

However, when we look closely at the figures, it is interesting to note that over the last three years, the Fed has only reduced its portfolios of short- and medium-term bonds. On the contrary, not only has it retained its bonds with maturities of 10 years or more, but it has continued to acquire them (see Fig. 6). It has been able to do so thanks to various technical aspects: reinvestment of £5 billion per month, renewal of MBSs with Treasuries, and preservation of market liquidity. This action by the Fed is not insignificant and should be viewed in conjunction with that of the Treasury, which has issued very few long-term bonds in recent years. **All of this confirms that, with the aim of offsetting investors' very low appetite for US debt with maturities of 10 years or more, the Fed is already actively intervening under its third mandate.**



Weak demand is evident in auctions of 10-year bonds. Before each sale, the Treasury publishes an indicative rate for the pre-issued security, which serves as a benchmark. If, on the day of the sale, the actual rate is above this benchmark, it means that subscription has been more difficult than expected. Demand was insufficient and a higher rate had to be offered to place the entire volume. Between 2022 and 2024, positive spreads of this type became the norm (see Fig. 7), a sign that investors were reluctant to lend to the United States on a long-term basis and were demanding an additional premium to do so.

The good news is that this is no longer the case in 2025.

Fig. 6 – Treasuries held by the Fed

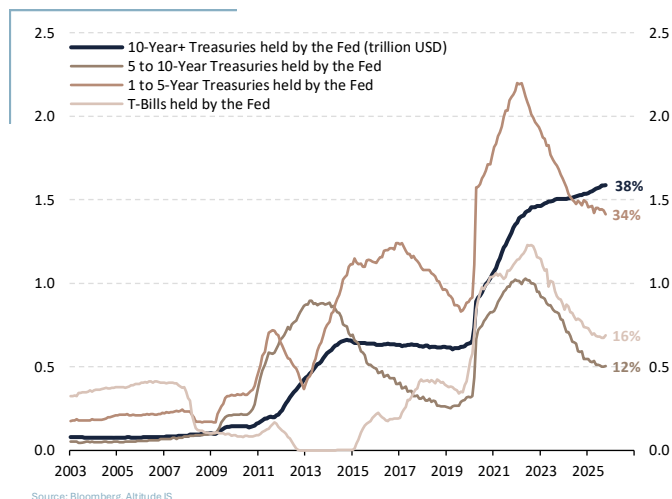
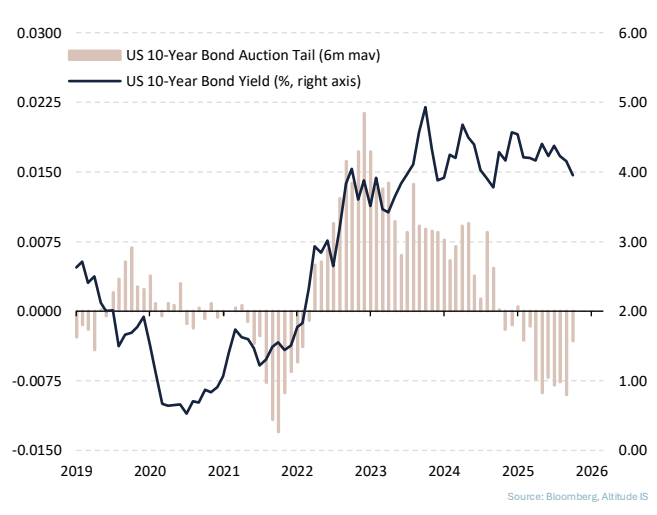


Fig. 7 – Tension during bond auctions



Both the Fed and the Treasury have a strong interest in seeing a steeper yield curve in the United States.

By restoring a sufficiently attractive yield spread, the Treasury would naturally encourage some money market fund holders to extend their horizon towards ETFs and long-term bond funds. This influx of demand would naturally absorb a larger supply and offer the Fed a way out. The Fed could then calmly sell off some of its 10-year and longer-term Treasuries. By lowering its key interest rates, the Fed will facilitate Treasury issuance and improve the quality of its balance sheet; all this while reducing the interest charges paid on public debt.

For investors, the message is clear. **Sovereign bonds will regain their status as risk-free assets, steepening strategies will diversify bond portfolios, and duration will be profitable.** Indeed, thanks to the discounting of distant dividends, 7-, 10- or 15-year bonds manage to outperform their 1-, 2- or 3-year counterparts, even when long-term rates fall less than short-term rates. Taking into account the roll-down effect, i.e. the fact that a bond's maturity automatically shortens as time passes, the return on investment is even better.

Conclusion:

During the next bout of turbulence on the stock markets, it is highly likely that gold will also correct, allowing investors to meet margin calls. Naturally, investors will turn to sovereign bonds, which offer high yields and measured risks. These bonds will then regain their status as risk-free assets, which has tended to be called into question in recent years.



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)	1 001.4	64.02	1.8%	2.4%	21.0%	18.0%	22.8%
USA (S&P 500)	6 792	62.39	1.9%	2.4%	16.7%	25.0%	26.3%
USA (Dow Jones)	47 207	63.27	2.2%	2.4%	12.5%	15.0%	16.2%
USA (Nasdaq)	23 205	61.72	2.3%	3.2%	20.8%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	598.5	61.59	1.5%	3.8%	22.0%	10.2%	19.5%
UK (FTSE 100)	9 646	70.47	3.1%	4.5%	21.6%	9.6%	7.7%
Switzerland (SMI)	12 568	58.12	-0.6%	4.9%	11.8%	7.5%	7.1%
Japan (Nikkei)	50 512	65.69	3.6%	8.7%	25.7%	21.3%	31.0%
Emerging (MSCI)	1 389	63.59	2.0%	2.8%	32.4%	8.0%	10.2%
Brasil (IBOVESPA)	146 172	63.25	1.9%	-0.2%	21.5%	-10.4%	22.3%
Mexico (IPC)	61 145	49.58	-1.0%	-1.1%	27.1%	-11.0%	22.4%
India (SENSEX)	84 876	67.78	0.3%	3.1%	9.1%	9.6%	20.5%
China (CSI)	4 715	60.04	3.3%	2.3%	21.4%	18.2%	-9.1%
Com. Services (MSCI World)	160.3	57.12	1.1%	0.0%	29.7%	31.9%	38.1%
Cons. Discretionary (MSCI World)	459.7	55.47	2.2%	-0.1%	10.1%	20.7%	29.5%
Cons. Staples (MSCI World)	293.2	55.87	-0.8%	1.9%	9.9%	4.7%	3.2%
Energy (MSCI World)	259.9	55.79	2.8%	-1.1%	11.8%	2.9%	6.0%
Financials (MSCI World)	214.3	52.07	1.8%	-0.2%	22.2%	25.1%	16.4%
Health Care (MSCI World)	376.2	65.91	1.2%	5.8%	9.5%	1.5%	4.1%
Industrials (MSCI World)	466.5	61.31	2.5%	2.6%	25.8%	12.8%	22.6%
Info. Tech. (MSCI World)	977.8	65.19	2.6%	5.0%	27.9%	31.9%	51.5%
Materials (MSCI World)	371.1	52.88	-0.2%	1.8%	24.0%	-7.6%	12.9%
Real Estate (MSCI World)	1 026	62.22	1.3%	1.9%	7.8%	-0.4%	5.3%
Utilities (MSCI World)	198.8	70.84	0.0%	5.5%	27.2%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.39%	54.87	-0.2%	0.4%	8.1%	-1.7%	5.7%
USA (Sovereign)	3.80%	63.75	0.1%	1.2%	6.5%	0.6%	4.1%
Euro Area (Sovereign)	2.79%	55.76	-0.3%	1.1%	1.1%	1.9%	7.1%
Germany (Sovereign)	2.40%	54.92	-0.3%	1.0%	-0.4%	0.6%	5.6%
UK (Sovereign)	4.38%	74.54	0.8%	2.2%	5.6%	-3.0%	5.6%
Switzerland (Sovereign)	0.34%	61.40	0.1%	0.4%	1.6%	5.4%	7.9%
Japan (Sovereign)	1.44%	51.16	-0.2%	0.2%	-2.4%	-2.1%	0.9%
Emerging (Sovereign)	6.18%	71.30	0.3%	1.5%	11.0%	7.0%	11.0%
USA (IG Corp.)	4.69%	67.90	0.1%	1.5%	8.2%	2.1%	8.5%
Euro Area (IG Corp.)	3.02%	62.52	-0.1%	0.7%	3.3%	4.7%	8.2%
Emerging (IG Corp.)	6.08%	60.82	0.1%	0.2%	7.4%	7.0%	6.7%
USA (HY Corp.)	6.69%	63.08	0.2%	0.4%	7.5%	8.2%	13.4%
Euro Area (HY Corp.)	5.42%	55.19	0.2%	-0.2%	4.5%	8.2%	12.1%
Emerging (HY Corp.)	7.88%	61.28	0.3%	0.7%	10.0%	14.9%	13.1%
World (Convertibles)	546.8	62.24	1.2%	3.1%	24.2%	9.4%	12.3%
USA (Convertibles)	724.2	60.45	1.1%	3.5%	21.0%	10.1%	14.6%
Euro Area (Convertibles)	290.2	61.81	0.9%	0.9%	24.7%	14.7%	7.3%
Switzerland (Convertibles)	278.7	69.25	0.5%	1.6%	15.8%	-10.5%	5.8%
Japan (Convertibles)	254.2	58.34	1.2%	1.6%	12.1%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 770	90.59	n.a.	2.4%	9.9%	11.1%	7.8%
Macro	1 424	79.61	n.a.	3.4%	6.1%	7.4%	1.6%
Equity Long Only	2 420	83.53	n.a.	1.1%	9.5%	12.0%	15.9%
Equity Long/Short	1 910	90.38	n.a.	2.7%	13.9%	14.0%	7.7%
Event Driven	1 867	88.87	n.a.	1.9%	8.2%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 816	96.44	n.a.	1.3%	10.0%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 773	86.45	n.a.	1.2%	6.6%	9.8%	7.8%
Credit	1 692	98.69	n.a.	0.8%	6.0%	8.5%	8.1%
Credit Long/Short	1 711	100.00	n.a.	0.8%	5.1%	10.0%	11.2%
Commodity	1 972	94.06	n.a.	2.6%	10.2%	14.7%	7.3%
Commodity Trading Advisors	1 371	62.38	n.a.	4.7%	2.1%	7.9%	-3.6%
Volatility							
VIX	16.37	45.69	-21.2%	1.2%	-5.6%	39.4%	-42.5%
VSTOXX	16.48	44.27	-18.6%	-1.8%	-3.1%	25.3%	-35.0%
Commodities							
Commodities (CRB)	536.2	n.a.	-0.4%	-1.7%	-0.1%	5.1%	-8.0%
Gold (Troy Ounce)	4 076	n.a.	-0.4%	8.4%	55.3%	27.2%	13.1%
Silver (Troy Ounce)	48.32	n.a.	-2.9%	3.0%	67.2%	21.5%	-0.7%
Oil (WTI, Barrel)	62.31	n.a.	8.3%	-4.9%	-13.1%	0.1%	-10.7%
Oil (Brent, Barrel)	66.46	n.a.	9.0%	-4.6%	-10.3%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	98.91	56.40	0.3%	0.8%	-8.8%	7.1%	-2.1%
EUR	1.1626	45.98	-0.1%	-0.9%	12.3%	-6.2%	3.1%
JPY	152.98	35.40	-1.5%	-2.9%	2.8%	-10.3%	-7.0%
GBP	1.3323	41.13	-0.6%	-0.8%	6.4%	-1.7%	5.4%
AUD	0.6540	50.59	0.4%	-0.6%	5.7%	-9.2%	0.0%
CAD	1.3978	46.76	0.4%	-0.5%	2.9%	-7.9%	2.3%
CHF	0.7967	50.67	-0.5%	0.1%	13.9%	-7.3%	9.9%
CNY	7.1111	62.36	0.1%	0.2%	2.6%	-2.7%	-2.8%
MXN	18.440	50.15	-0.3%	-0.4%	12.9%	-18.5%	14.9%
EM (Emerging Index)	1 840.2	47.97	0.0%	-0.2%	6.5%	-0.7%	4.8%
XBT	116 022	n.a.	7.7%	6.0%	23.8%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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