BBGI GROUP Global Investments

Economic Research

WEEKLY ANALYSIS

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A bearish start to the year for the capital markets

A Probable rebound for the long-term rates in 2021. Increase in the relative attractiveness of the U.S. market. Inflationary risks underestimated. Beware of risk premiums and durations.

Points clés

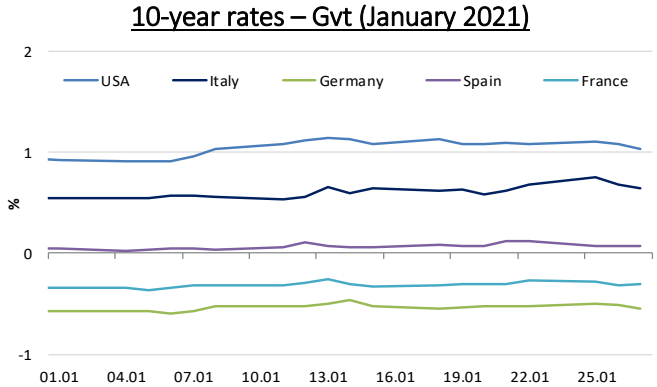
- A bearish beginning of the year for the interest rate markets under the influence of the US Treasury
- Unanticipated but probable rebound in long-term rates in 2021
- The rise in long-term rates increases the relative attractiveness of the US bond market
- How far can risk premiums decline in the Eurozone?
- An uncertain situation in the United Kingdom
- Japan's deflationary rates stabilized
- Bond investment policy focused on quality and short maturities

A bearish beginning of the year for the interest rate markets under the influence of the US Treasury

The beginning of 2021 is already clearly marked by new expectations of an economic recovery in the United States, fears of an uncontrolled increase in debt and a resumption of inflation in 2021.

The 10-year US Treasury rates thus initially jumped by nearly 30 basis points, from 0.91% to 1.1855% in the first week. In the euro zone, there was a less noticeable movement, which for the time being is more akin to a stabilization than a clear trend reversal. In Switzerland, the federal government's rates also underwent a clear adjustment, rising from -0.59% at the January low to -0.41% at the six-month high.

In Japan, the movement remains imperceptible, but yields are once again at the top of the trading range of the last nine months (0.05%). UK rates also rose slightly, but stabilized at 0.3%. Canadian (0.87%) and Australian ten-year government yields (1.15%) are in January at their highest level since April 2020. The first weeks of 2021 are therefore probably already part of a new trend of adjustment of bond yields to the certainly more positive evolution of global economic growth in 2021.



Sources: Bloomberg, BBGI Group SA

Probable rebound for the long-term rates in 2021

In the bond markets, the risks of an unexpected and uncontrolled rebound in long-term yields seem to us to be increasingly likely. The weakening economic outlook for Q1 is likely to dampen this trend. However, it seems reasonable to us that a normalisation of global growth in the course of the year could lead to a global readjustment of interest rates. The first country to have already observed such a trend in the US, perhaps because investor confidence in the ability of the US authorities and the Federal Reserve to re-establish conditions conducive to lasting growth is the highest,