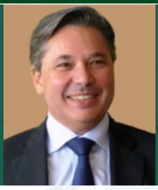
ECONOMIC RESEARCH | December 13th, 2023

Investments - Flash



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NORMALIZATION OF OUTLOOKS FOR GBP RATES

More favorable evolution supported by a clearer easing of inflation

The increasingly visible cyclical slowdown, along with a more pronounced easing of inflation, now raises hopes for a somewhat different trajectory than envisaged just a few months ago for interest rates. In October, the ten-year rates of the UK government once again reached the 4.5% threshold that had been touched in September 2022, and more recently in July and August 2023. November proved to be a potentially crucial month for monetary policy and the level of the government bond yield curve. A series of economic statistics has significantly altered the assessment of monetary tightening risks and the perception of the appropriate level of long-term rates in the context of the ongoing economic slowdown and ultimately faster decline in inflation. Over the past six months, long-term rates have hovered around 4.5%, awaiting clearer signs of the long-awaited recession.

Following this horizontal movement, the sterling yield curve has remained inverted, as short-term rates also rose by 0.25% in August, bringing the short end of the yield curve to 5.25%. Now, the inversion of the curve is becoming more pronounced since the decline in ten-year rates from 4.65% in October to just 4% in early December. With the fall in inflation, real interest rates are no longer as negative.

In international comparison, the yield curve still seems a bit too low for the level of inflation observed in the United Kingdom. However, after recent macroeconomic developments, a phase of stabilization and limited decline in long-term rates could still continue. Prospects are normalizing for sterling bonds.