Investments - Flash

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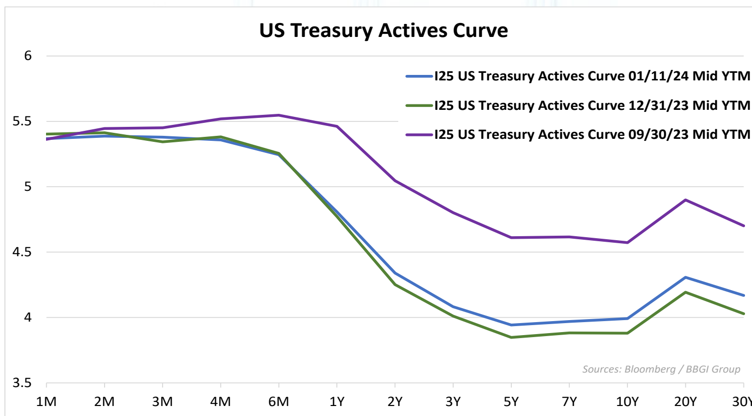
NORMALIZATION OF YIELD CURVES IN 2024

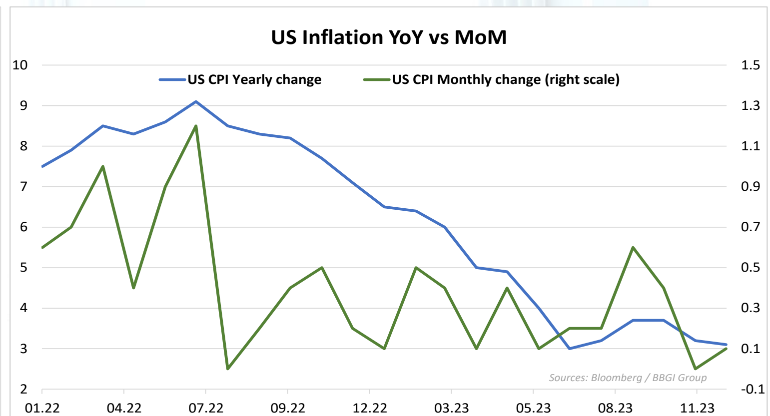
Falling short-term rates and reversal of fund flows in favor of bond markets

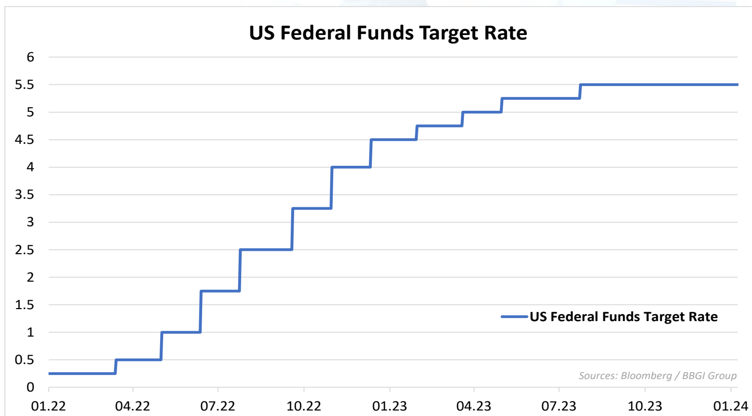
The preferred soft landing scenario for early 2024 will also support the continued normalization of inflation towards the Fed's target. The current inversion of yield curves in the USA is exclusively due to the high level of key rates and, consequently, of the short end of the yield curves. Against this backdrop, a 100 bp normalization of monetary policy over the next nine months seems highly likely.

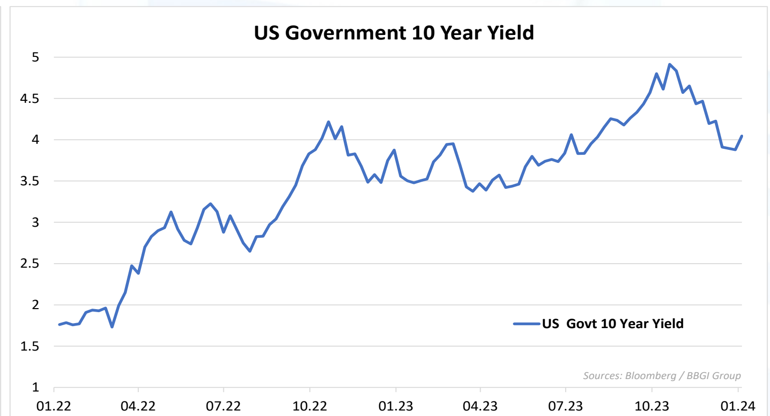
However, if rates on other maturities, i.e. around 4% at 10 years, were to stabilize at current levels, the yield curve between key rates lowered from 5.5% to 4.5% and 10-year Treasury rates would remain inverted by -50 bps, as was already the case in October. This situation would certainly still be considered inappropriate in the absence of a recession, while inflation would finally be brought under control. We believe that, with inflation continuing to decline towards +2% and considering a simple cyclical slowdown in the 1st half of the year, US long yields should ease a little further and approach the 3.25% to 3.5% level in the 3rd quarter. In this context, and without a recession, this inversion of the yield curve would rise to 100 bps and would remain unjustified. An even more substantial downward adjustment of Fed policy rates would therefore be conceivable, and would need to be a further 100bp for the yield curve to flatten.

In 2024, we should see a complete reversal in fund flows compared to 2023. Short-term investments will be abandoned in favor of bond markets offering still-attractive yields and the prospect of capital gains. This trend could strengthen demand and push yields a little lower than we currently envisage, to 3.25% for ten years.









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