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Investments - Flash

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NEW OPPORTUNITIES FOR EURO BONDS

Capital gains on lower interest rates in Q2 2024

The faster-than-expected fall in inflation in Europe at the end of 2023 quickly had a major impact on investors' expectations of key rates and market rates for 2024. These over-optimistic expectations have since been adjusted, resulting in a rise in interest rates. Indeed, during the 1st quarter, inflation continued to fall, albeit at a slower pace.

Against this backdrop, expectations for end-March and end-June rates rose from 3.7% to 3.9%, while ten-year German Bund yields also climbed from 1.9% to 2.35%. After falling 110 bps, rates have now stabilized 40 bps higher. This adjustment, which has also taken place in many other market segments, seems to us once again to offer repositioning opportunities for investors in search of yield and potential capital gains.

Indeed, Bund yields may yet adjust downwards and fall back below +2% in the coming months, particularly if inflation turns out to be below the ECB's annual target (+2.3%) in the future. March CPI could already fall to +2.4%, and continue to fall below 2% over the summer. The services segment remains the main component of inflation, and needs to weaken further to allow CPI to slip below 2%. The ECB will cut rates rapidly in June, and in this context, current yields in France (2.8%), the Netherlands (2.65%), Italy (3.66%) and Spain (3.18%), for example, could benefit from a drop of around 50 bps, corresponding to an average capital gain of around +5%. The European bond market is therefore once again attractive for diversifying bond allocations.