Investments - Flash

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OUTLOOK OF OVER +10% FOR US BONDS

But the fall in job creation does not herald a recession

Ten-year US Treasury yields are once again at their lowest (3.7%) since peaking at 5% on 23 October 2023. The latest job creation statistics published on Friday, showing a fall to just 118k new private jobs in August and a revision to 97k for July, certainly rekindled speculation about the health of the US economy and the risk of recession, temporarily affecting the equity markets, but without causing any panic in the bond market, where ten-year yields barely fluctuated on the news. For several months, the statistics had already been suggesting that the US economy was weakening, and this economic slowdown is now also more visible in the job market. That said, we have been talking since the start of the year that the labour market is normalizing and that this trend is also accompanied by a steady decline in inflation, which could finally support the long-awaited change in the Fed's monetary policy. We believe that the risks of a recession remain very low in the current economic climate, and that it is therefore more likely that the US central bank will begin its policy change with a cut limited to 0.25%, with PCE inflation remaining at 2.5% year-on-year. In this context of a simple slowdown, we believe that key rates (5.5%) should be cut to 3.5% in the 2nd quarter of 2025 and could fall below 3% if inflation continues its current slide towards the Fed's 2% target. With the yield curve gradually flattening, ten-year yields still offer the potential to fall by 75 to 100 basis points and represent an attractive investment opportunity offering an attractive yield and a potential capital gain of +10%.