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Investments - Flash

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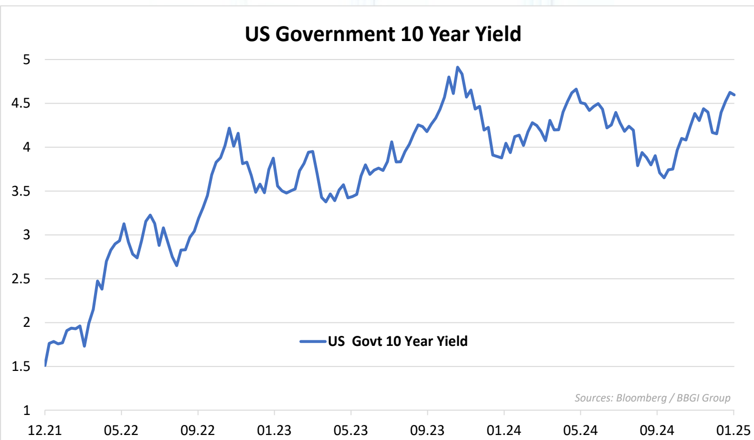
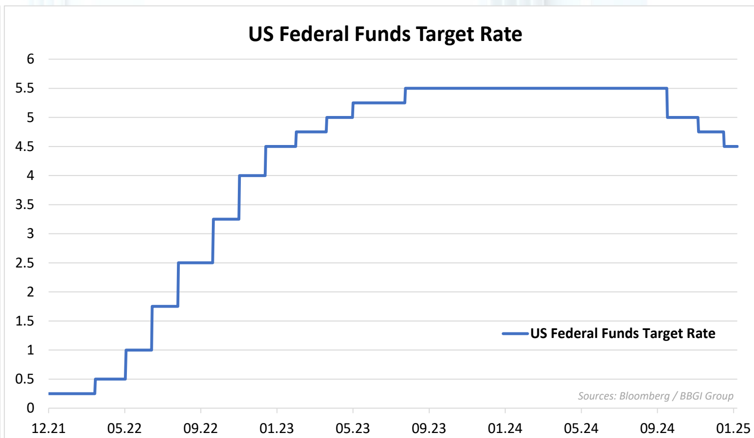
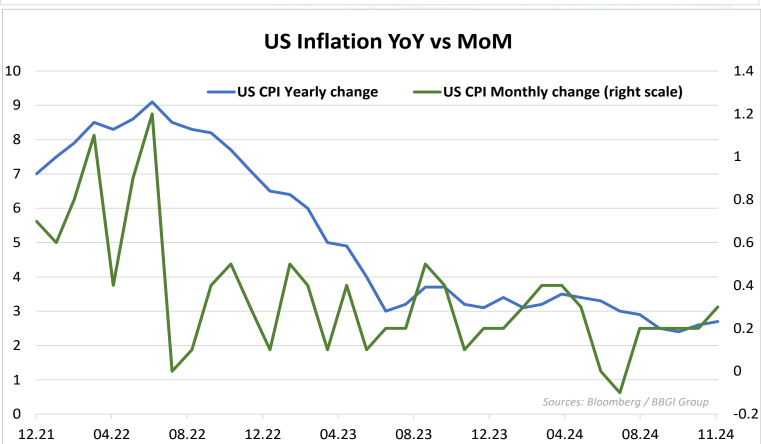
INFLATIONARY FEARS ARE EXCESSIVE IN THE UNITED STATES

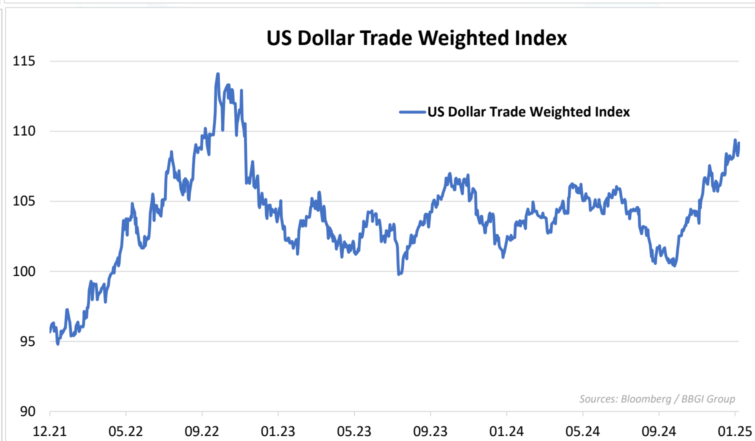
Towards a new downward movement in the yield curve

While the recent small rebound in inflation and solid growth in Q3 may have been partial factors in adjusting balanced rate levels, it seems to us that it was fears of the inflationary effects of Trump's program, difficulties in financing US debt, the risks of a “shutdown”, the Fed's QT and the postponement in time of four 0.25% rate cuts by the Fed that caused ten-year Treasury rates to rise to 4.6% at the end of the year. This fear of rising inflation in 2025 could, however, be quickly allayed by weaker economic statistics in the coming weeks and, above all, by less extreme policy announcements by the Trump administration, including tax, deregulation, immigration and pro-business measures. At current levels, we believe that long yields have taken immediate account of the potentially extreme inflationary effects of aggressive tariff policies, which will certainly be less significant and only become concrete in the second half of the year. Ten-year yields of 4.6% seem excessive to us in the context of annual inflation of just +2.6 (CPI) and +3.3% (excluding food/energy). We do not consider the impact of higher tariffs on imports representing 14% of GDP to be sufficient to justify a 200-bp spread on long rates. All the more so as imported inflation is also dependent on the value of the dollar, and an appreciation of the latter would reduce its importance. With an equilibrium level of rates closer to 3.5% for ten-years and 3% for Fed funds, current opportunities look very attractive. They combine a high level of yield with significant additional capital gains.









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