ECONOMIC RESEARCH | August 5th, 2025

WEEKLY ANALYSIS

M. Alain Freymond — Associé & CIO

INTERNATIONAL BOND MARKETS

Yields on US Treasury bonds have shown significant volatility. For the bond markets, the situation is already complex and the equation is difficult to solve. The SNB is considering negative interest rates if the franc continues its upward trend.

Key points

- Continued decoupling between fixed income markets
- Between recession and inflation, rates are wavering in the United States
- Moderate outlook for bond markets in the eurozone
- The UK bond market offers attractive but risky yields
- Japanese yields are stuck at the 1.5% threshold
- The expected decline in yuan yields has reached its target
- International tensions are driving demand for CHF bonds
- Negative rates likely to return to Switzerland
- Long-term yields are approaching zero again

Continued decoupling between fixed income markets

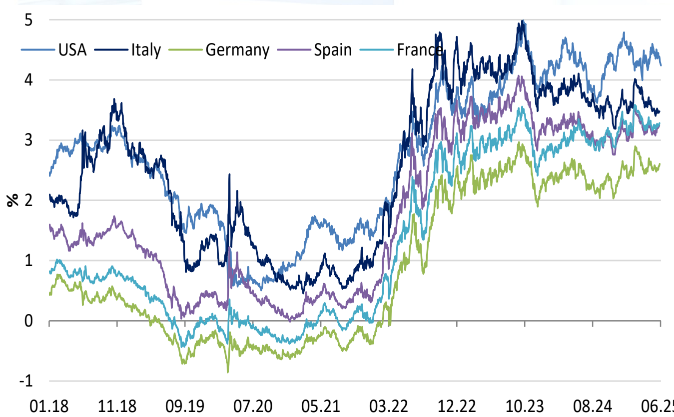
The decoupling of bond markets, already highlighted in the first quarter, continued over the last three months in sovereign bond markets, in contrast to previous periods when yields tended to move more in sync. The main driver of this less aligned behavior between bond markets is the monetary policies pursued by central banks, which since the end of 2024 have tended to follow different paths. While the ECB eased its policy by lowering rates in June, and other central banks (Switzerland, Sweden, Canada) also followed a cycle of easing, the US Federal Reserve (Fed) kept rates stable in the face of more persistent inflation (partly due to tariffs). This marked divergence has led to distinct yield trajectories, with European and Swiss sovereign bond yields tending to fall or remain at low levels. For example, yields on ten-year Swiss government bonds fell from 0.50% to less than 0.20% over the quarter. In contrast, US Treasury yields showed significant volatility, fluctuating between 3.86% and 4.62% during the quarter, due to concerns about tariff-induced inflation and the widening US budget deficit. Long-term yields even rose, while short-term yields fell, leading to a flattening of the US yield curve.

Budgetary issues also had a greater impact on US markets, particularly due to the evolution of the budget deficit and the consequences of the adoption of the Big Beautiful Bill. Pressure on long-term yields in the US was logically higher than in other markets where fiscal issues were less pressing or perceived differently. Finally, inflation dynamics diverged and appeared to be much better controlled in the eurozone and Switzerland, while in the US, inflation remained more persistent and subject to additional pressures, particularly related to tariffs. This differentiation naturally led central banks to respond differently, impacting the correlation of interest rate markets.

Between recession and inflation, rates are wavering in the United States

Bond markets are also facing a complex dilemma, torn between inflationary risks and fears of a sharper slowdown. Trump's tariff policy appears to be both inflationary and recessionary.

10-year rate—Gvt



Sources: Bloomberg, BBGI Group SA