Ostrum ASSET MANAGEMENT

MyStratWeekly
Market views and strategy

N° 196 / **March 10, 2025**

This document is intended for professional clients in accordance with MIFID

Axel Botte
Head of Market Strategy
axel.botte@ostrum.com

Zouhoure Bousbih
Emerging countries strategist
zouhoure.bousbih@ostrum.com

Aline Goupil-Raguénès
Developed countries strategist
aline.goupil-raguenes@ostrum.com

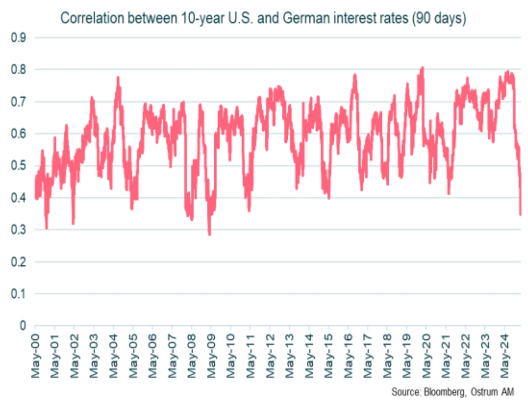
Topic of the week: Will the Treasury rally be sustained?
by Axel Botte

- U.S. imposed trade tariffs have hit consumer and business confidence. Domestic demand is moderating as the trade deficit swelled in December-January. A growth scare is taking shape in the U.S. markets;
- The U.S. GDP for Q1 2025 could be quite downbeat. Data is surprising on the downside. Tariff hikes are seen as a transient price shock as opposed to a long-lasting inflation push;
- Treasury yields have fallen sharply from a high of 4.79% in January to around 4.20% now;
- Investor surveys suggest net long positioning is back and intensified once yields fell below the 4.50% threshold. The Fed may end QT fairly soon which would add to Treasury buying pressure. There is also scope for further short covering flows;
- The news flow could push 10-Yr yields towards 4% before investors question valuations again.

Market review: There are weeks where decades happen.
by Axel Botte

- EU Pledges €800 Billion for Defense as Germany Commits Additional €500 Billion for Infrastructure;
- Interest Rates: Bunds sell off by 30 bps on Wednesday, marking a significant volatility event;
- Spreads: Credit and sovereign spreads holding firm amidst the volatility in risk-free rates;
- Equities: U.S. tech plummets, while European markets remain stable, buoyed by banking and cyclicals.

Chart of the week



The correlation between 10-year U.S. and German interest rates is exceptionally low and quite unusual. It is in a way the financial translation of American isolationism.

This reflects the German budgetary revolution, which is expected to result in more issuances, putting pressure on the long end of the sovereign bond yield curve.

This decoupling should support the European currency against the greenback.

Figure of the week

500

Germany has announced a large special off-budget fund for infrastructure, amounting to 500 billion euros over 10 years (11% of GDP), as well as a reform of the debt brake, aimed particularly at increasing military spending. These measures must be approved by the outgoing Parliament before March 25. Source: Bloomberg

Topic of the week

Will the Treasury rally be sustained?

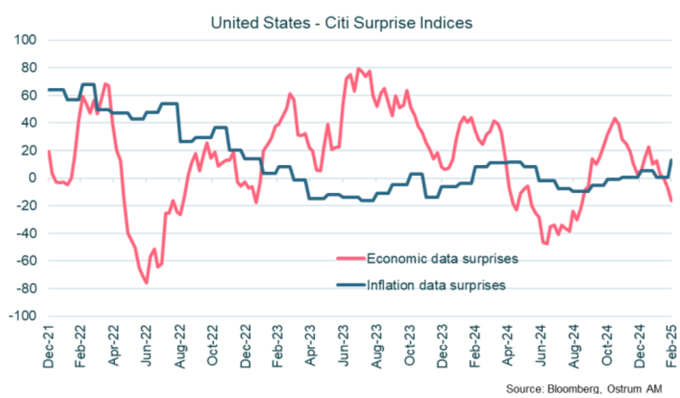
The U.S. Treasury bond market has rallied considerably since January. The yield on 10-Yr notes fell from a 2025 high at 4.79% on January 14th to about 4.20% at present. Since Donald Trump took office, yields have come every single week as uncertainty related to tariff policy, questionable stock valuations and a U.S. growth scare push yields lower. In this note, we review the factors behind the U.S. duration trade.

A U.S. growth scare in the making?

Shock to confidence, dismal trade data amid tariff rift have weighed on bond yields

The U.S. Treasury bond market is primarily driven by monetary policy, economic growth and inflation expectations. The Fed's dual mandate is to foster maximum employment in the context of price stability. The current tariff policy introduces uncertainty regarding both the price outlook and activity in the months to come. Given the sheer size of household spending in U.S. aggregate demand, shocks to consumer confidence should never be overlooked. Both the University of Michigan and the Conference Board surveys signal that tariffs and job prospects are a source of concern for households at present. In fact, consumer expenditure declined by 0.5% in January in volume terms, in spite of rising household income. Likewise, the decline in pending home sales over the past few months does not bode well for spending on durable consumer goods in the coming months. The fact that consumer spending was very strong late last year speaks volumes of the expected hit to real incomes if tariffs are indeed implemented. For the time being, only goods imported from China face levies, but other custom duties may come into force soon. On the fiscal side, the budget bill that passed the House in late February includes sizeable cuts to Medicaid and food allowance to fund the extension of the TCJA. Despite spending cuts and bogus DOGE savings worth $500 billion, federal deficits will twirl out of control unless Senate lawmakers limit the shortfall during the reconciliation process.

Data has started to surprise on the downside on the supply side as well. Aggregate hours worked have slowed even as the economy kept adding jobs. The ISM manufacturing survey dipped on weaker orders and employment intentions in February. The fall in shipments of capital goods suggests slower corporate investment spending ahead. Tariff angst also spurred unprecedented imports of business supplies since November last year. The total goods' trade deficit swelled from around 90 billion per month through November 2024 to a $122 billion shortfall in December 2024 and a record $153 billion in January 2025. Foreign trade will dent growth significantly in the first quarter. The Atlanta Fed nowcast estimates that GDP growth will be sharply negative in the three months to March. The U.S. GDP could contract by as much

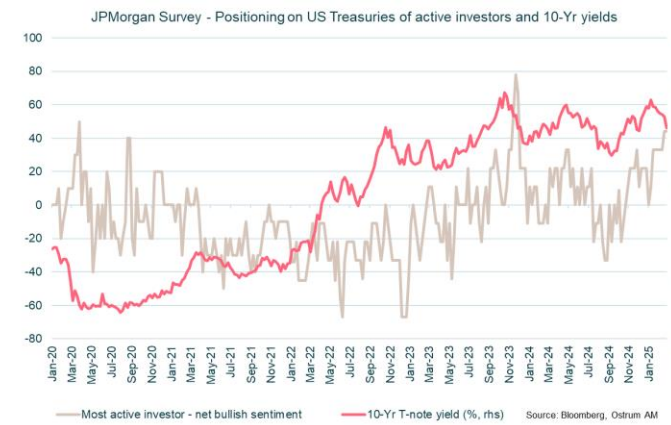


as 2.4 % at an annualized rate. It could be that the 2.3% growth in the final quarter of last year was indeed overstated and that the actual economic slowdown is less abrupt, but the direction of travel is clear.

Bullish sentiment evident in surveys, market positioning

Sentiment improved to net long as U.S. yields crossed below 4.50%

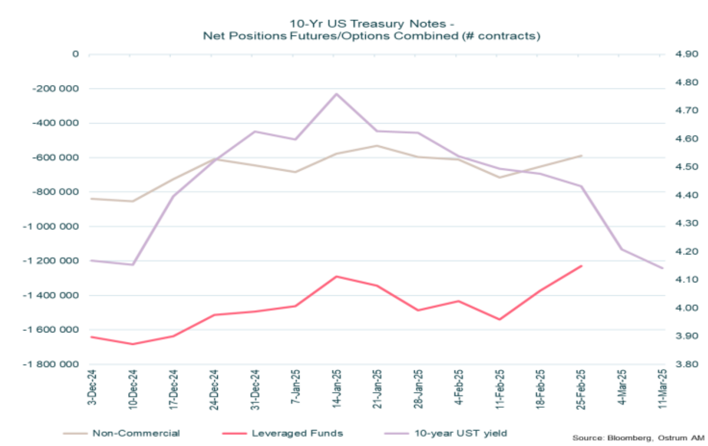
As U.S. growth exceptionalism is put to the test, bond market participants have grown more constructive about the market. The JP Morgan survey of U.S. Treasury bond investors show a sharp increase in net long positioning since 10-Yr note yields crossed the 4.50 % line. The sentiment measure stood at +44 on February 27th, a relatively high reading. If tariffs indeed slow spending, then upside risks to inflation may dissipate over time. In short, the bond risk pendulum has swung from an inflation scare back to a growth scare.



Speculative investor positioning in Treasury bond futures markets has been short. The short stance is slowly being unwound. As bond yields accelerate to the downside there is a risk that more short covering could add fuel to the bond rally. Non-commercial accounts represent risk-takers that do not use bond futures for hedging purposes. Leveraged funds can be risk takers or arbitrageurs with cash-future basis exposure. Both groups of investors have been buying back T-note futures but the remaining short position is still sizeable at 1.2k contracts (or $12 billion nominal exposure). In the same vein, traded volumes of call options on US government bonds have far outpaced put volumes. The current extremely low ratio of put to call volumes, is another sign of bullishness among the most active risk takers.

Lots of scope for further short covering

Changes in the Treasury yield curves are always informative. The 5s30s nominal yield spread has ranged between 35 and 50 bps in 2025. However, underneath the surface, the term structures of real yields and inflation expectations moved wildly and in opposite directions. The real yield curve keeps on steepening whilst the inflation curve flattens. This can signal a range of outcomes. The current growth scare weighs on real yields as the Fed may respond to weaker activity. In turn, the fiscal backdrop may get worse before they get better. The sovereign credit premium embedded in the U.S. long-term bond yield thus remains sizeable. It



shows up in high long-term real yields and equivalently in elevated term premia or swap spreads (measured by Treasury yields vs. SOFR OIS). Conversely, the inverted term structure of inflation expectations reflects expectations of a transient price shock leaving long-run inflation expectations anchored around the central bank's goal.

U.S. bond yields now below fair value but the news flow may cap yields for some time

Ten-year note yield may have overshot fair value seen at 4.45 %

Bond yields can be decomposed into expected short-term interest rates and a term premium. The sequence of short-term interest rates is tied to policy rate expectations and an estimate of the steady-state level of interest rates. The term premium measures the extra return earned by investors willing to assume the risks involved with a long-term bond investment. The premium thus represents compensation for interest rate risk, credit risk, market volatility and liquidity. There are several factors influencing the term premium. The dynamics of supply and demand for long-term bonds play a key role. On the supply side, net Treasury bond issuance will stay unchanged until the debt ceiling is lifted and the budget reconciliation process is complete. The Federal Reserve's quantitative tightening (QT) means that $25 billion worth of Treasuries must be absorbed by market participants each month. A decision to stop QT would raise demand for Treasuries and reduce the term premium. The U.S. dollar remains the main reserve currency We expect the Fed to announce amendments to QT soon. This could drive the 10-Yr swap spread up to -35 bps (i.e. the 10-Yr note yield trades at a premium of 35 bps over overnight index swaps based on SOFR).

Our outlook for Fed funds rates includes three 25-bp cuts in June, September and December. The steady-state natural rate derived from market prices is 4.52% on our Nelson-Seigel model estimates (using data as at March 4th). We judge that current fair value on 10-Yr yield is 4.45% and 4.52% on a one-year horizon. One can judge that yields have overshot their fair value by about 20 bps.

The negative news flow and downside surprises on activity data and surveys may keep a lid on yields for some time. As stated above, short bond positioning is not fully unwound. Thus, U.S. yields may hit 4% before moving back closer to fair value.

Conclusion

The U.S. bond rally is developing in the context of a trade war ignited by Donald Trump. Tariffs have hit consumer and business confidence as early signs of demand weakness emerge. U.S. exceptionalism is being questioned. There is room for further short covering inspired by the negative news flow even as 10-Yr yields have already fallen below fair value of 4.45%.

Axel Botte

Market review

There are weeks where decades happen

Germany's ambitious infrastructure plan and European defense expenditures represent a significant inflection point in fiscal policy. The German 10-year bond yield has surged nearly 50 bps to 2.90%, while the U.S. Treasury note hovers around 4.25%, caught between disappointing economic news and tariff uncertainties. In equity markets, U.S. technology stocks are retreating, whereas European indices continue their ascent. Overall, spreads remain largely stable, and the dollar is experiencing a notable decline.

Is Germany on the cusp of a cultural revolution? With €400 billion earmarked for military spending and an additional €500 billion for infrastructure investments, the long-standing fiscal constraints in Germany have finally been lifted in response to pressing security and economic challenges. Furthermore, the European defense plan is set to reach €800 billion over four years, with €650 billion funded by member states and the remainder sourced through EU loans (€150 billion in reallocated credits). In the U.S., headlines remain dominated by Donald Trump's contradictory announcements regarding tariffs. The U.S. administration is grappling with a cyclical downturn, marked by an alarming trade deficit of $131 billion in January and falling consumer confidence. The labor market is slowing, compounded by federal layoffs and a political environment that is unfavorable for investment and job creation. Nevertheless, job growth recorded 151,000 new positions in February, with a slight uptick in the unemployment rate to 4.1%. The only glimmer of hope comes from the stable ISM services index, which held steady at 54 in February.

Financial markets are responding positively to the European initiative: the euro is climbing towards $1.09, and the Bund's sharp rise (+30 bps on Wednesday, marking its largest single-day increase since reunification) has not significantly impacted equity markets, despite profit-taking following the employment report for February. As anticipated, the ECB has lowered its deposit rate to 2.50% (-25 bps), while raising its inflation projection to 2.3% for 2025. An April pause is being discussed, but it appears that this monetary tightening cycle will continue until rates reach 2%. The yield premium offered by long-term Bunds is attracting institutional interest, with the 30-year Bund hitting a peak of 3.16% midweek. The Bund's rally is having no significant effect on sovereign spreads, which remain stable over the week, with the OAT trading at 70 bps. Swap spreads are logically tightening as future funding needs are reassessed, with the 10-year swap spread sinking below -10 bps.

Credit spreads continue to trade within a narrow range. The asset swap on euro investment-grade debt is currently around 83 bps. The primary market remains well absorbed, with €80 billion per month expected in 2025, bolstered by net fund inflows (+€1 billion per week in 2025) and a pickup in new issue premiums. High yield spreads (289 bps over swaps), although expensive, are also weathering the extreme volatility in rates. Emerging market debt is holding up well amidst a sharply declining dollar. Retaliatory measures from countries targeted by Trump have reversed the relationship between rising tariffs and the dollar. Concerns regarding the U.S. economy and political uncertainty are causing rotations away from U.S. technology stocks. European markets are resilient, supported by financials and cyclical stocks poised to benefit from military and infrastructure spending plans. The Euro Stoxx 50 is projected to rise by 12% in 2025.

Axel Botte

Main market indicators

G4 Government Bonds	10-Mar-25	1wk (bp)	1m (bp)	2025 (bp)
EUR Bunds 2y	2.23%	+16	+20	+15
EUR Bunds 10y	2.82%	+33	+46	+46
EUR Bunds 2s10s	59.4 bp	+17	+26	+31
USD Treasuries 2y	3.96%	+1	-31	-28
USD Treasuries 10y	4.26%	+11	-24	-31
USD Treasuries 2s10s	29.9 bp	+10	+8	-3
GBP Gilt 10y	4.62%	+6	+16	+5
JPY JGB 10y	1.58%	+16	+23	+18
€ Sovereign Spreads (10y)	**10-Mar-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
France	72 bp	0	-2	-11
Italy	112 bp	+1	-1	-3
Spain	65 bp	+4	+2	-4
Inflation Break-evens (10y)	**10-Mar-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
EUR 10y Inflation Swap	2.06%	+8	+7	+14
USD 10y Inflation Swap	2.45%	-3	-14	-1
GBP 10y Inflation Swap	3.45%	-2	-13	-8
EUR Credit Indices	**10-Mar-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
EUR Corporate Credit OAS	85 bp	-6	-7	-17
EUR Agencies OAS	48 bp	-3	-6	-14
EUR Securitized - Covered OAS	43 bp	-3	-5	-13
EUR Pan-European High Yield OAS	300 bp	+3	-8	-18
EUR/USD CDS Indices 5y	**10-Mar-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
iTraxx IG	55 bp	+2	+2	-3
iTraxx Crossover	295 bp	+10	+7	-18
CDX IG	52 bp	+2	+3	+2
CDX High Yield	326 bp	+14	+30	+15
Emerging Markets	**10-Mar-25**	**1wk (bp)**	**1m (bp)**	**2025 (bp)**
JPM EMBI Global Div. Spread	328 bp	0	+14	+2
Currencies	**10-Mar-25**	**1wk (%)**	**1m (%)**	**2025 (%)**
EUR/USD	$1.082	3.098	4.888	4.5
GBP/USD	$1.289	1.329	4.079	2.9
USD/JPY	JPY 147	1.907	3.054	6.8
Commodity Futures	**10-Mar-25**	**-1wk ($)**	**-1m ($)**	**2025 (%)**
Crude Brent	$70.4	-$1.2	-$5.0	-4.7
Gold	$2 906.7	$15.8	$3.4	10.8
Equity Market Indices	**10-Mar-25**	**-1wk (%)**	**-1m (%)**	**2025 (%)**
S&P 500	5 770	-3.10	-4.88	-1.9
EuroStoxx 50	5 492	-0.88	2.49	12.2
CAC 40	8 170	-0.36	2.05	10.7
Nikkei 225	37 028	-2.00	-4.57	-7.2
Shanghai Composite	3 366	1.48	1.32	0.4
VIX - Implied Volatility Index	24.76	8.69	56.61	42.7

Source: Bloomberg, Ostrum AM

Additional notes

Ostrum Asset Management

Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share capital of 50 938 997 €. Trade register n°525 192 753 Paris – VAT : FR 93 525 192 753 – Registered Office: 43, avenue Pierre Mendès-France, 75013 Paris – www.ostrum.com
This document is intended for professional, in accordance with MIFID. It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written authorization of Ostrum Asset Management.
None of the information contained in this document should be interpreted as having any contractual value. This document is produced purely for the purposes of providing indicative information. This document consists of a presentation created and prepared by Ostrum Asset Management based on sources it considers to be reliable.
Ostrum Asset Management reserves the right to modify the information presented in this document at any time without notice, which under no circumstances constitutes a commitment from Ostrum Asset Management.
The analyses and opinions referenced herein represent the subjective views of the author(s) as referenced, are as of the date shown and are subject to change without prior notice. There can be no assurance that developments will transpire as may be forecasted in this material. This simulation was carried out for indicative purposes, on the basis of hypothetical investments, and does not constitute a contractual agreement from the part of Ostrum Asset Management.
Ostrum Asset Management will not be held responsible for any decision taken or not taken on the basis of the information contained in this document, nor in the use that a third party might make of the information. Figures mentioned refer to previous years. Past performance does not guarantee future results. Any reference to a ranking, a rating or an award provides no guarantee for future performance and is not constant over time. Reference to a ranking and/or an award does not indicate the future performance of the UCITS/AIF or the fund manager.
Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.
Final version dated 10/03/2025

Natixis Investment Managers

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.
In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Italy: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. Netherlands: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Spain: Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006, Madrid, Spain. Belgium: Natixis Investment Managers S.A., Belgian Branch, Louizalaan 120 Avenue Louise, 1000 Brussel/Bruxelles, Belgium.
In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.
In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.
In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.
In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10 ,ICD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.
In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788.
In Singapore: Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and institutional investors for informational purposes only.
In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.
In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only .
In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.
In Latin America: Provided by Natixis Investment Managers S.A.
In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.
In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.
In Mexico Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.
The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.
The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.
Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.
All amounts shown are expressed in USD unless otherwise indicated.