CIO expects government bond yields to fall in 2024, supporting positive returns for the asset class. (UBS)

What's next for bonds in 2024?

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US government bond yields, especially on longer-dated debt, hit multi-year highs in October. But more balanced Fed commentary and slowing US inflation has led borrowing costs to fall. We expect yields to decline further and quality bonds to rally in 2024.

CIO likes high-quality (government) and investment grade bonds in the 1–10-year maturity range, especially 5-year Treasuries.

Global bond yields have retreated from October highs on a dovish Fed and slowing US inflation.

- Yields on 10-year US Treasuries breached 5% in mid-October, some of the highest levels since 2007. They have since declined to 4.44% (as of 19 November).
- The sharp fall in borrowing costs comes after the latest Fed meeting, where Fed Chair Powell struck a more balanced tone than markets had expected.
- Headline inflation decelerated to a 3.2% year-over-year rise in October from 3.7% in September, raising hopes the US hiking cycle is over.

Yields can fall further in 2024, as growth and inflation slow.

- We expect government bond yields to fall in 2024, supporting positive returns for the asset class.
- We think weaker growth and slowing inflation should contribute to lower interest rate expectations.
- Our base case is for the 10-year US Treasury yield to stand at 3.5%by end-December 2024.

Among bonds, we like high-quality segments best.

- We prefer fixed income to equities in our global strategy for 2024.

- We like opportunities in the 1–10-year duration segment in high grade (government) and investment grade. Our preferred spot is the 5-year point.
- We see only select opportunities in riskier credit segments next year, including high yield credit and emerging market bonds. Diversification will be key.

Did you know ?

- US government bonds have outperformed USD cash in 83% of five-year periods since 1925. If we look at all five-year periods since January 1977 (the earliest point with available data on a higher 2-year than 10-year Treasury yield, known as curve inversion), US government bonds have outperformed in about 90% of the time, and in 97% of five-year periods when the yield curve was inverted at the beginning of the five-year period.

Investment view

In fixed income, we like opportunities in high-quality government and investment grade bonds. Our preferred duration segment within high-quality debt is the 1–10-year range, with a preference for the 5-year point in US government debt. Investors can consider a 5yr/10yr duration-neutral US steepener to hedge against risks of loose US fiscal policy and tight US monetary policy in 2024. This position may also benefit if the market raises its estimates for aggressive rate cuts in the US.

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