Long-term rates: a false bargain or asymmetric hedging?

September 15, 2025

Dear clients, dear partners,

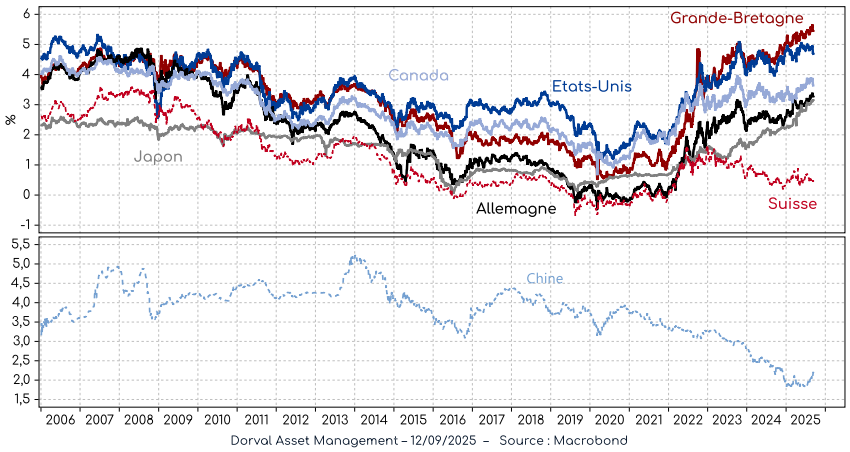
Long-term rates are rising in the major developed economies. There are many reasons for this, some with more unfortunate consequences (the level of public debt), others more positive (the resilience of global growth). Ultimately, barring any destabilization linked to a conflict of objectives between monetary and fiscal policy, long-term rates are regaining some appeal in terms of diversification alongside cash, which remains dominant in the non-equity portion of our portfolios.

The flight from duration

After more than a decade of very low rates, long-term bond yields (20-30 years) in developed economies have risen spectacularly since 2022. Significantly, this movement has been largely synchronized across the US Treasury, German Bund, UK Gilt, and even Japanese JGB markets, despite their different macroeconomic contexts. The only exceptions to this trend are China and Switzerland (Chart 1).

**The continuous drift of 30-year yields since 2022...
except in China and Switzerland**

La dérive continue des taux à 30 ans depuis 2022...
...sauf en Chine et en Suisse



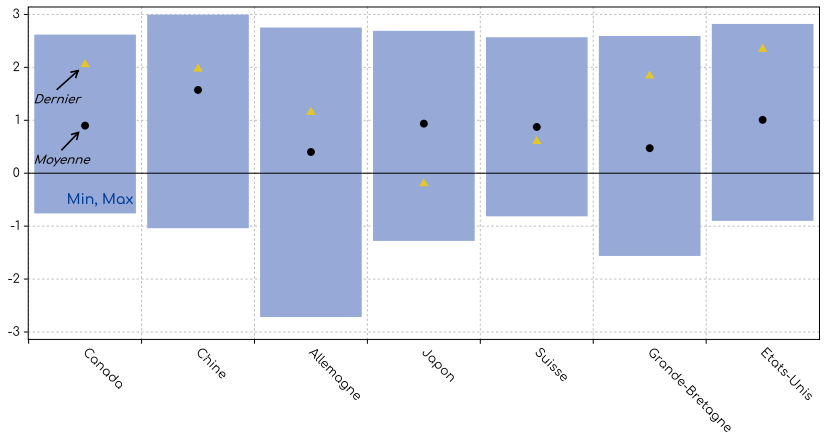
Dorval Asset Management – 12/09/2025 – Source : Macrobond

A combination of explanatory factors

Since inflation is the main explanatory variable for long-term rates, it is interesting to compare inflation-adjusted interest rates (real interest rates). With the exception of Japan, real interest rates are positive everywhere and higher than their respective averages since 2004. The United States and the United Kingdom stand out with rates particularly close to their upper range. Germany has the interest rates furthest from their low point reached in 2023. Finally, the Chinese and Swiss anomalies are diminishing: real interest rates in both cases are very close to their historical average and to those of other countries (Chart 2).

Long-term real yields since 2004

Taux longs réels depuis 2004



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Last / Average / Min, Max

There is no single explanation for this dynamic. Several forces are at work:

- Global growth has proven more resilient than anticipated in recent years.

- Public debt has reached record levels, fueling concerns about fiscal sustainability and increasing the risk premium.

- Structural demand from traditional investors—pension funds and insurers—is weakening, reducing historical support for long maturities. A case in point is the ongoing reform of Dutch pension funds, which are shifting from defined benefits to defined contributions, reducing their demand for long duration in asset-liability management.

- Central banks are reducing the size of their balance sheets ("quantitative tightening"), which reduces their role as non-economic buyers.

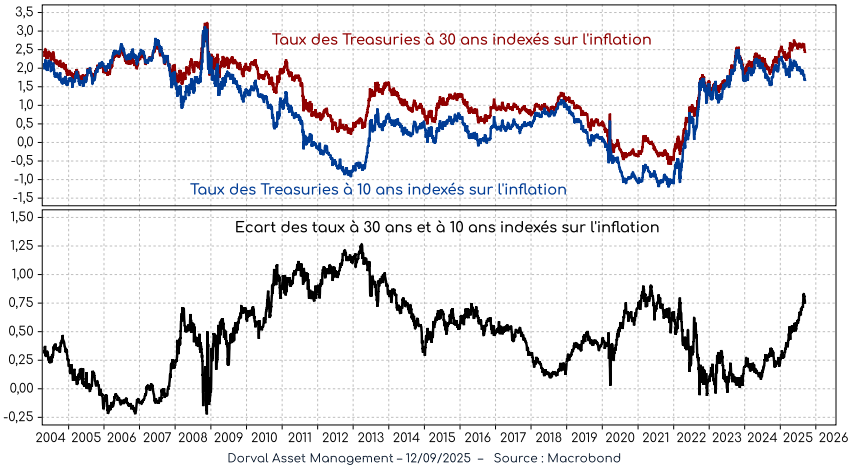
- Finally, the questioning of the dollar as an absolute safe haven is prompting some international investors to diversify their reserves into gold, for example.

Valuations becoming attractive again

In this context, one point deserves attention: long-term interest rates are becoming more attractive, particularly in the United States. Real yields measured by 30-year TIPS are at levels rarely seen in the last 15 years. They therefore offer a significant premium, both in terms of inflation protection and duration risk compensation (Chart 3).

A more attractive valuation of long-term yields

Une valorisation des taux longs plus attractive



30-year Treasury yields indexed to inflation / 10-year Treasury yields indexed to inflation / Spread between 30-year and 10-year inflation-indexed yields

Three scenarios for the future

What are the prospects? The central scenario would be a stabilization of long-term rates around current levels, reflecting a sustained higher term premium. A bullish scenario would involve continued tension, driven by a reacceleration in growth or a growing contradiction between monetary and fiscal policy. Conversely, a bearish scenario would materialize in the event of a recessionary shock or a resurgence in institutional demand for long-term debt.

Implications for portfolios

These trajectories are not neutral for portfolios. Sustained higher long-term rates exert gradual pressure on stock market valuations. If long-term rates were to accelerate upwards from current levels for reasons related to a conflict of objectives between monetary and fiscal policy, for example, this would destabilize all stock markets. On the other hand, the renewed attractiveness of long-term real bonds gives investors an effective diversification tool. In a portfolio dominated by equities, incorporating long maturities can once again help reduce volatility and restore a more robust risk/return balance.

After having been completely absent from duration since 2021 in international wealth management funds, we have gradually increased duration in the 2-year to 8-year range in the eurozone and the 7-year to 10-year range in the United States (without currency risk).

Our exposure rates are as follows:

Fund	Net equity exposure	Breakdown by theme (as a percentage of total equities)	Other
Dorval Convictions	65%	- Core basket excluding themes: 55% - Financials: 26% - Reflation: 16% - Small caps: 3%	Euro Stoxx 50 futures hedges

Dorval Asset Management

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