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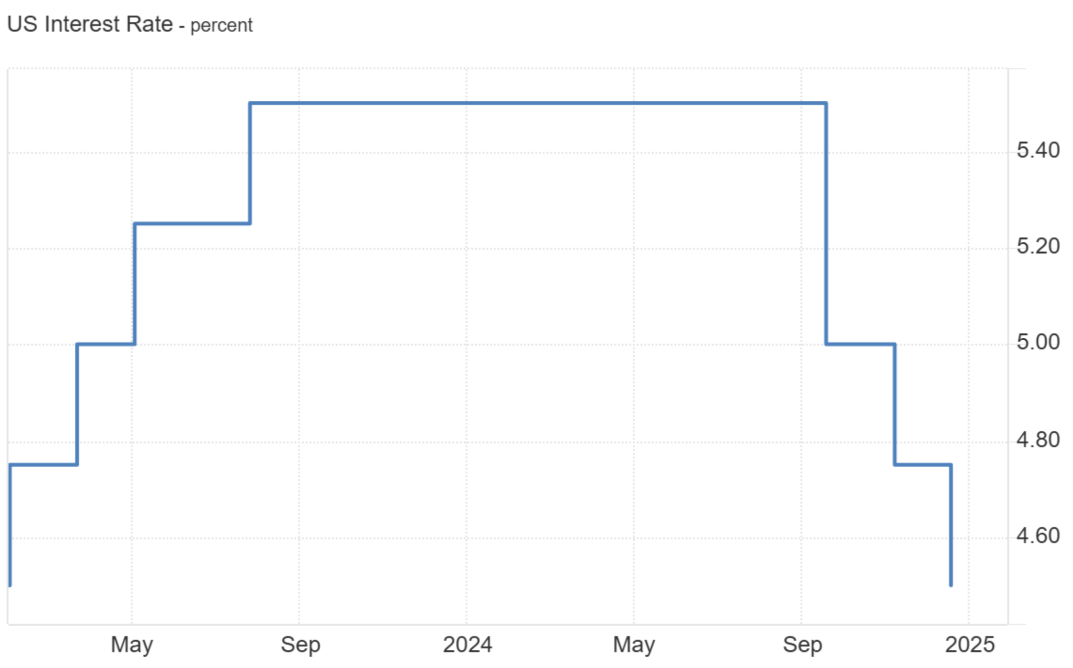
Introduction

Bond performance varied significantly across countries in 2024. U.S. 10-year Treasury yields increased by 70 basis points, German 10-year yields surged by 33 basis points, and Lebanon’s 10-year yields fell by 3,263 basis points. Looking ahead to 2025, bond markets face challenges, particularly due to uncertainty about how US President Donald Trump's policies will influence the global economy’s dynamics. In this analysis, I will begin by examining U.S. bonds, then move on to EU bonds and emerging market (EM) bonds, and finally, provide an in-depth analysis of Lebanese bonds.

US Bonds

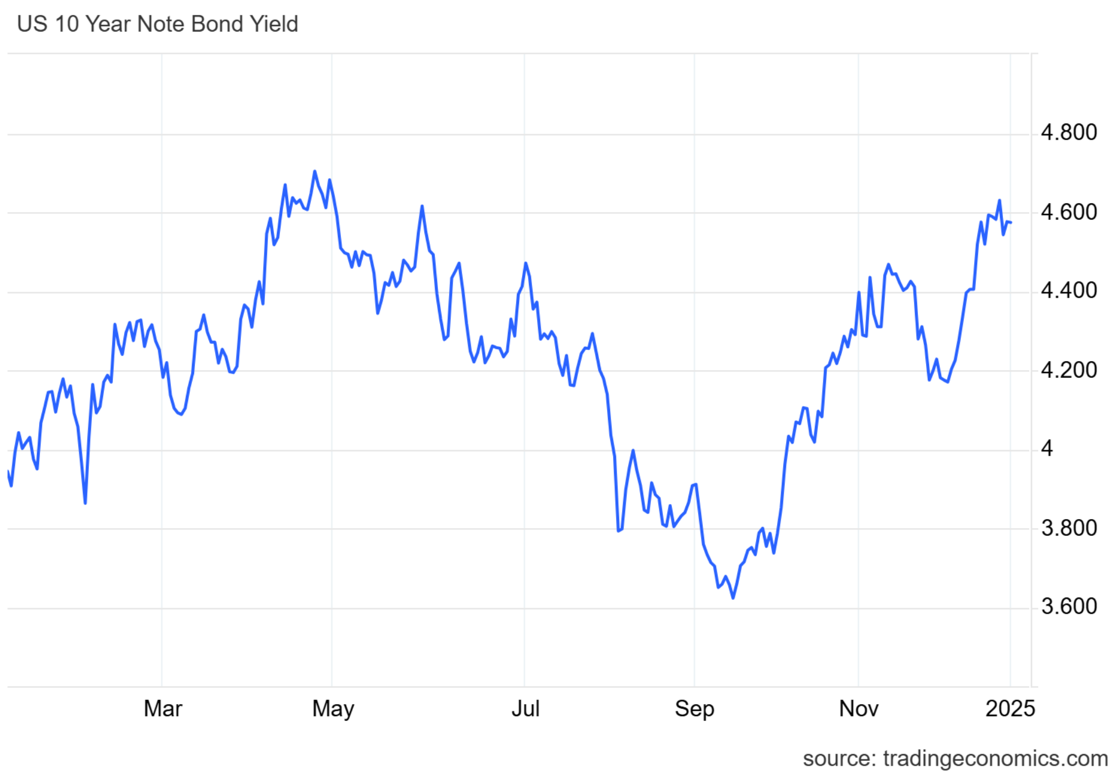
The Federal Reserve implemented three consecutive interest rate cuts in 2024, reducing rates by a total of one percentage point since initiating this cycle in September. By December 2024, interest rates had dropped to their lowest level in two years, settling in the range of 4.25% to 4.5%. This “soft landing” strategy aimed to shield economic growth from the impact of the most aggressive monetary tightening cycle in decades. Before these cuts, the rate had remained steady at 5.25%-5.50% since July 2023.



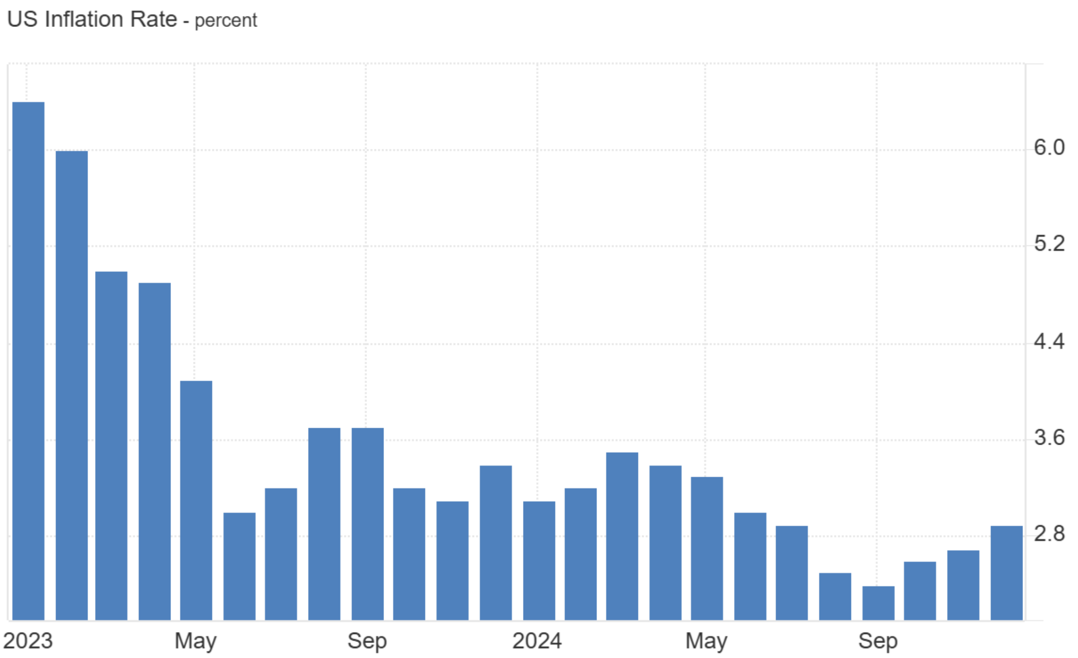
Source: tradingeconomics.com | Federal Reserve

Usually, as rates are cut, treasury yields decrease. However, US 10-year treasury yields witnessed atypical move and rose by about 70 basis points due to heightened macroeconomic uncertainty and stronger growth expectation, according to J.P. Morgan Wealth Management. In fact, U.S. economy grew more than expected in 2024, with growth estimates doubling from 1.2% to 2.7% by year-end. This strong growth added upward pressure on yields as the expected number of Fed rate cuts in 2025 declined. In addition, while Trump asked for lower interest rates, subtly referring to the US Federal Reserve, Fed chair Jerome Powell kept rates unchanged in January 2025' s meeting. The effects of the new US administration's policies on inflation and interest rates are still uncertain.

Treasury yields are inversely correlated to bond prices, therefore, as yields went up, bonds went down. This highlights the market's anticipation of higher inflation and the need for higher returns to compensate for potential future risks.

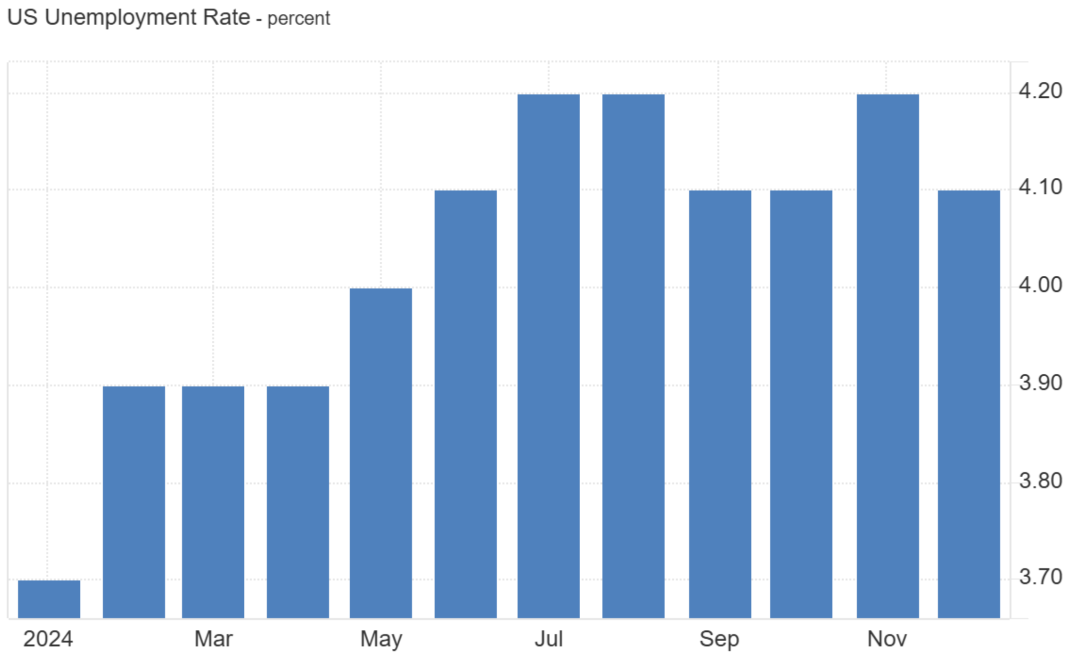


Inflation, while easing to 2.9% year-over-year by December 2024, has shown signs of resurgence since October. This uptick is expected to persist in 2025 with the anticipated inflationary policies of President Donald Trump, such as tax cuts and higher tariffs on certain countries' products. These measures might stimulate demand but risk reigniting inflationary pressures, complicating the Federal Reserve's efforts to balance growth and price stability. Looking ahead, the Federal Reserve appears poised to adopt a cautious approach. This stance reflects the Fed's balancing act between addressing inflation risks and supporting an economy facing rising unemployment and potential fiscal policy shifts.



Source: tradingeconomics.com | U.S. Bureau of Labor Statistics

On the labor front, unemployment has been trending upward. Unemployment reached 4.1% in December 2024, and is expected to record 4.4% in September 2025, according to Trading Economics' forecasts. This signals a cooling labor market that could weigh on consumer spending and broader economic activity.

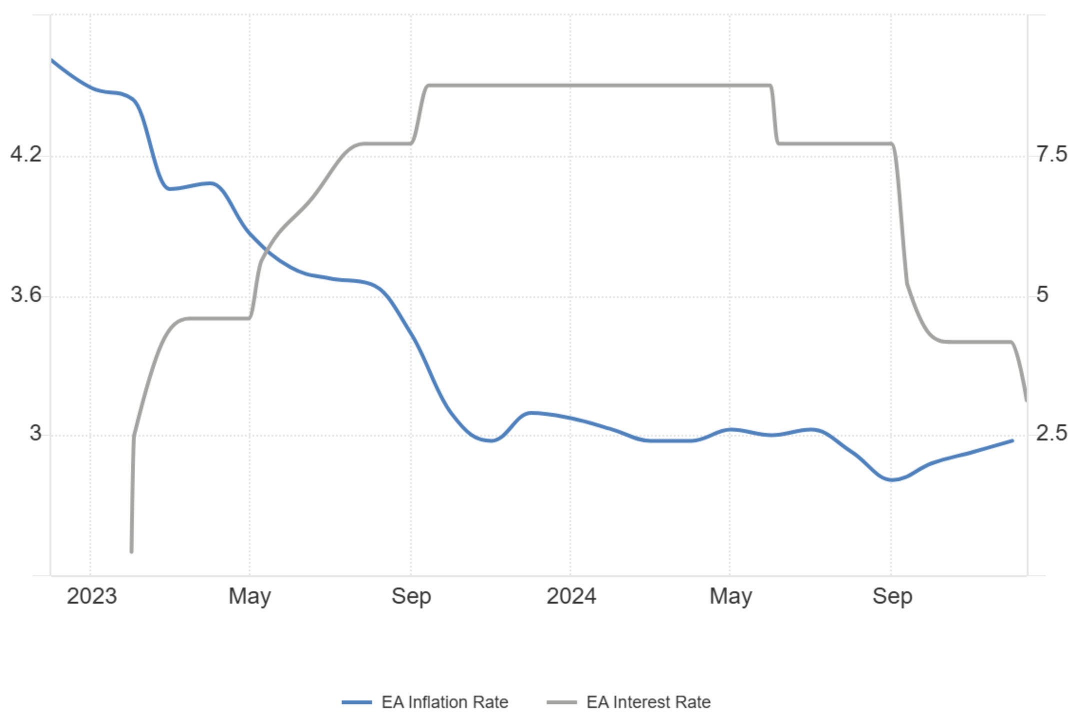


Source: tradingeconomics.com | U.S. Bureau of Labor Statistics

EU Bonds

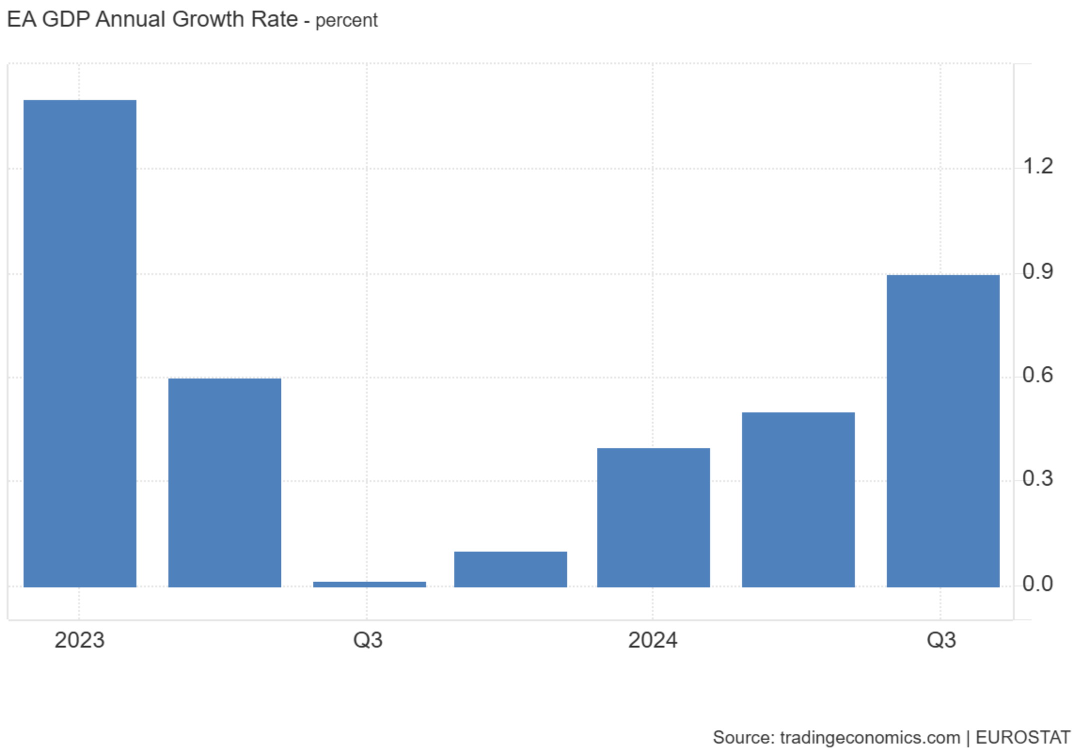
In the euro area, inflation rate was 2.4% in December 2024, down from 2.9% a year earlier. Inflation cooled down compared to 2023, but December 2024 saw the highest rate since July 2024, rising for the third month in a row. Inflation is expected to gradually decrease to 2.1% in 2025 and 1.9% in 2026, according to Trading Economics.

Source: tradingeconomics.com

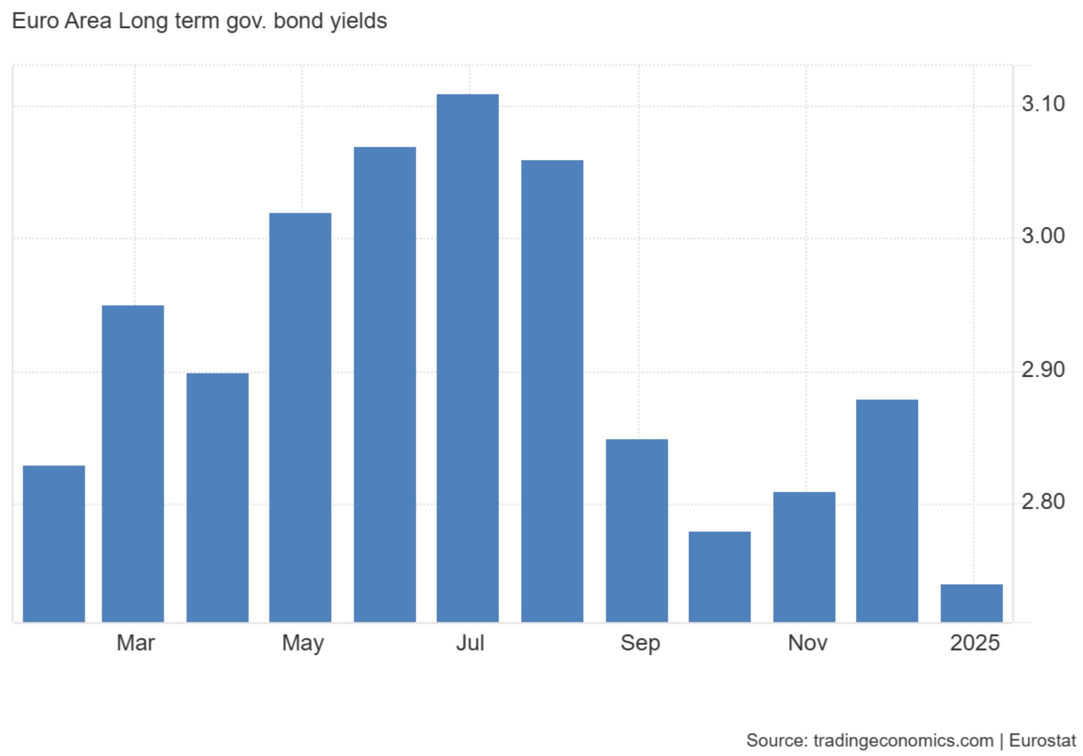


As inflation cooled, the European Central bank (ECB) cut rates four times in 2024, lowering them from 4.5% to 3%. This reflects a better inflation outlook. Even though it' s cheaper to borrow money now because of the rate cuts, borrowing costs are still high due to previous rate hikes.

The ECB remains commited to bringing back inflation to its 2% target. It announced that it will change its policies based on new data, without committing to a specific rate path. As a result, investors are seeking clues about upcoming policy changes. Given the euro area' s economic fragility and political uncertainty in Germany and France, many are expecting quicker rate cuts. Trump's tariffs on EU imports will be closely monitored. These tariffs could negatively impact the EU economy by decreasing the demand on EU products in the US.



The Euro Area's GDP grew by 0.9% in the third quarter of 2024 compared to the same quarter the previous year. The GDP annual growth rate is estimated to be 1.2% in Q4 2024. The GDP annual growth rate is forecasted to grow by 1.5% in 2025 and 1.6% in 2026, according to Trading Economics' econometric models. Growth in the eurozone is uneven, with Germany falling behind other European counterparts like Spain and Portugal. The upcoming German election on February 23 will be closely monitored for signs that a new government may increase fiscal spending. Despite the sluggish economy, Eurozone unemployment has remained steady at 6.3% since September, marking a historical low. Tight labor markets, despite recent easing, continue to pressure economic growth.



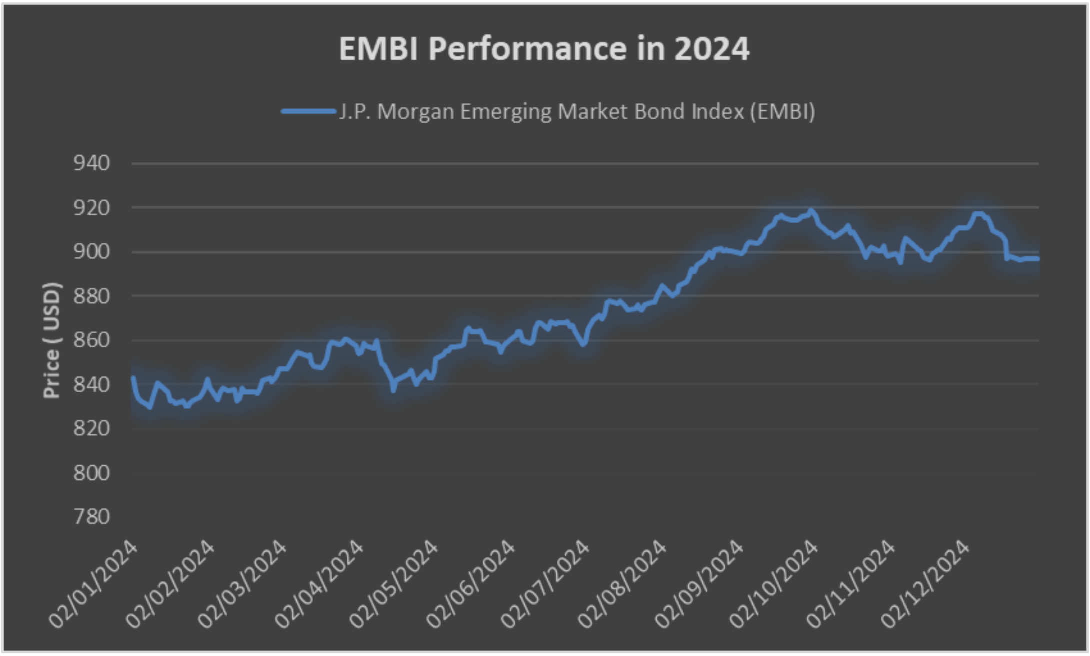
As rates are cut, government yields decrease. The Euro Area - Long term government bond yields decreased from 2.77% in December 2023 to 2.74% in December 2024. Yields are inversely correlated to bond prices, therefore, as yields went down, bonds went up.

Source: Investing.com

Yet, the change in bond prices varies from country to country. For instance, bonds in high-risk countries like Italy, Spain, and Portugal have performed better compared to typically more stable countries such as France and Belgium. Notably, the spread of French government bonds over German bonds reached its highest level since the eurozone debt crisis in 2012, before narrowing again. This means that investors see French bonds as riskier compared to German bonds as a result of the French political Turmoil. This included the resignation of former French Prime Minister Michel Barnier after a no-confidence vote following his controversial budget attempt using Article 49.3 of the Constitution to bypass parliamentary approval. Bond performance improved with the appointment of new Prime Minister François Bayrou.

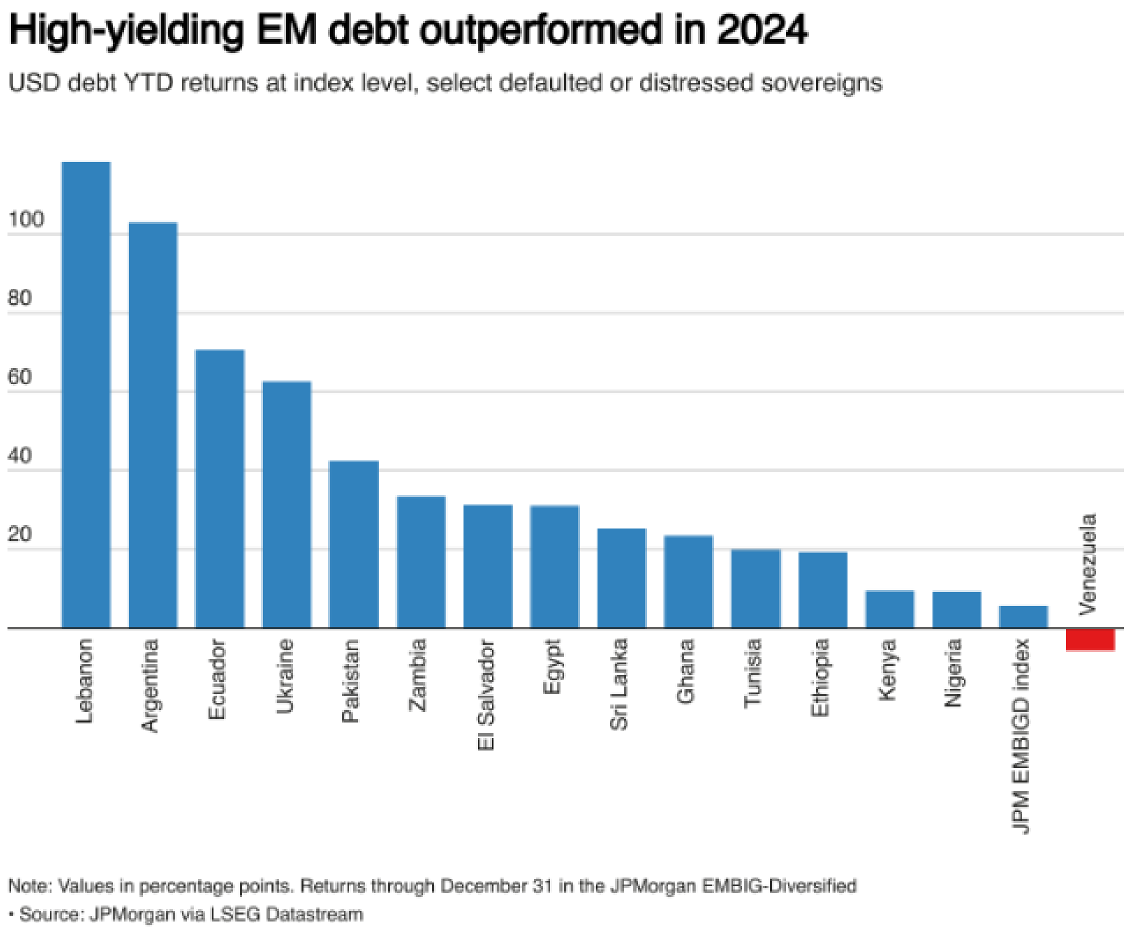
Emerging Markets Bonds

EM have seen a significant surge in 2024, with more than $600 billion flowing into developed and emerging market bond funds, surpassing the $500 billion record set in 2021, according to the financial data provider EPFR. As a result, J.P. Morgan Emerging Market Bond Index (EMBI) rose by 6.42% in 2024 to $897.2.



Source: Bloomberg

The below chart shows how some of the high-yielding EM bonds outperformed in 2024. Many of them had defaulted on their debt previously, such as Ethiopia and Sri Lanka. Now, their bonds recovered to over 60%.



Graphic: Reuters

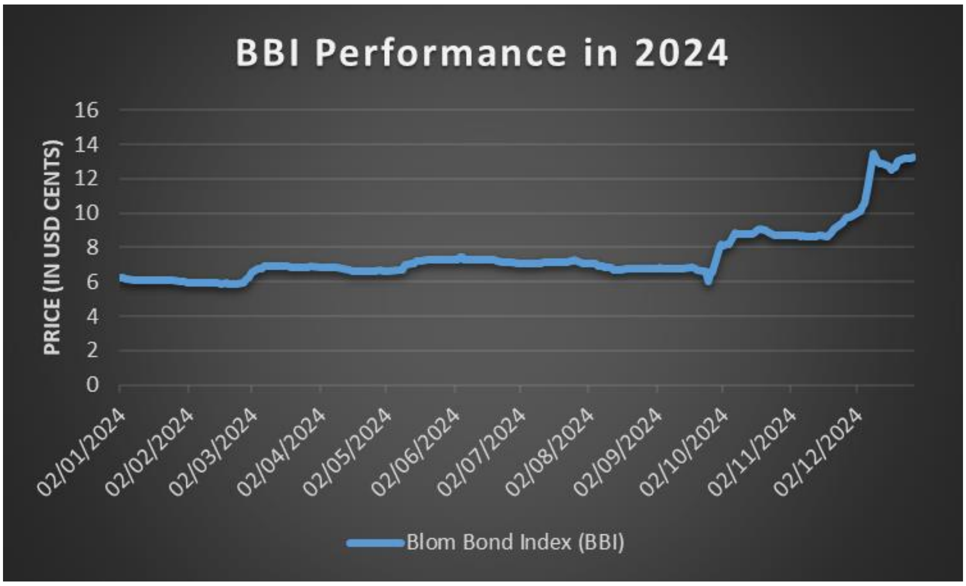
Argentina's dollar bonds surged by 100%, driven by President Javier Milei's free-market reforms and growing investor confidence in debt repayment. The bonds also got a boost from Trump's presidential win, given Milei's close ties with Trump.

Trump's victory also gave a lift to Ukrainian bonds, as investors are betting that his administration will work towards a swift resolution to the conflict with Russia.

Meanwhile, middle-income emerging economies like Brazil and Mexico are either adopting or planning to adopt looser policies. This shift could lead to higher country risk premiums.

Lebanon's Eurobonds

Lebanon's Eurobonds surged the most among all emerging market sovereign bonds in 2024, especially in the last quarter, reaching their highest levels in over two years. The BLOM Bond Index (BBI), tracking Lebanese government Eurobonds (excluding coupon payments), rose by approximately 113% in 2024 to 13.29 points. This surge was driven by hopes that Hezbollah's weakening after its war with Israel, and the fall of its ally, Previous Syrian President Bashar Al-Assad, would lead to political, financial, and economic reforms in Lebanon, including lifting the country out of the bond default it experienced in 2020.



Source: BLOMINVEST Bank

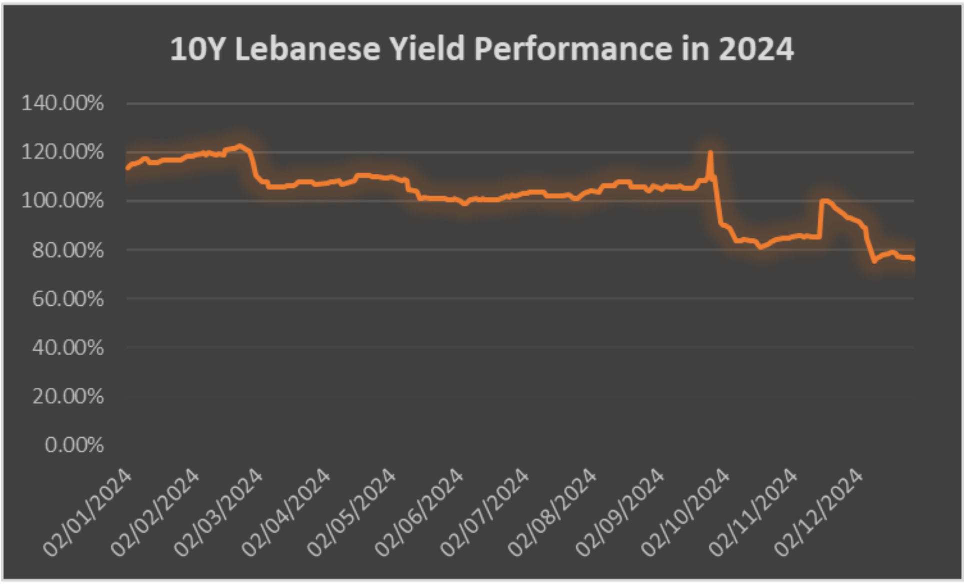
For the bond restructuring process to happen, the following developments are expected to happen first:

Steps	Political Development	Status
1	Permanent end to the conflict with Israel	Truce in place, outlook optimistic
2	Election of a new president	Completed in early 2025 with the election of Lebanese Army chief Joseph Aoun as president, ending a two-year presidential vacuum. This action was already anticipated in late 2024.
3	Formation of new government	New PM elected Nawaf Salam in early 2025, currently working on forming a new government. This move was also expected in 2024, though the PM's name was not clear.
4	Completion of the IMF prior actions as per the April 2022 Staff Level Agreement	Pending. The new Lebanese government can request a new support program from the IMF, considering the significant changes in the Lebanese economy since the IMF's last visit.
4	Parallel discussion with bondholders	Prescription period extended for bondholders to claim interest on Eurobonds till March 2028
5	Final approval of an IMF program	Pending

That said, Goldman Sachs (GS) expects Lebanese Eurobonds to be worth 24.6 cents in its base case scenario, with various scenarios of bond prices ranging from 12.3 cents to 36.4 cents. This implies that Lebanese Eurobonds are still undervalued despite their recent surge.

The recent political developments offer a hopeful scenario, especially with the new Lebanese president's international and regional support, which can help reintegrate Lebanon into the Arab and international community, both in terms of financial aid and fostering better relations with foreign countries.

However, many obstacles could disrupt this process. Israel's ceasefire breaches threaten lasting peace, and restructuring the Central Bank and commercial banks, crucial for the IMF deal, is challenging due to an $80 billion financial gap. Additionally, political uncertainty and systemic corruption hinder reform efforts. Hezbollah's influence, despite military setbacks, remains strong, affecting political decisions. The rise in bond prices reflects speculation rather than real financial improvement. Overall, the deeply rooted political and economic issues, along with the need to rebuild trust in the banking sector and judiciary, pose substantial challenges to Lebanon's recovery.



Source: BLOMINVEST Bank

When bond prices go up, yields go down. Consequently, the yield on 10-year bonds fell by 32.63% to 76.6% in 2024. Similarly, the yield on 5-year bonds declined by 35.76% to 105% in 2024.

Conclusion

The end of 2024 has left the bond market in a state of uncertainty, driven by a combination of inflationary pressures and shifting political landscapes. As central banks struggle with persistent inflation, particularly in the U.S., expectations for interest rate cuts have been significantly revised. The recent election of Trump has exacerbated these concerns, introducing protectionist policies that may reshape global trade dynamics and further complicate economic forecasts for 2025.

In Europe, the European Central Bank (ECB) remains cautious, with indications that rates may remain beyond the 2% target as they continue their easing cycle. Meanwhile, the performance of emerging market bonds is varied, with some countries like Lebanon showing potential for growth amidst political changes.

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