Lebanon's Disarmament Plan Spurs Economic Hopes, While U.S. Treasury Yields Sink on Political Pressure

BLOMINVEST BANK

August 29, 2025

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	28/08/2025	21/08/2025	Change	Year to Date
BLOM Bond Index (BBI)	20.22	20.21	0.05%	52.15%
Weighted Yield	104.13%	102.92%	1.18%	0.55%
Weighted Spread	10,013.47	9,881.14	1.34%	0.86%

The **BLOM Bond Index (BBI)**, which tracks Lebanese government Eurobonds (excluding coupon payments), rose by tiny **0.05%** in the week ending **28 August 2025**, closing at **20.22 points**. Moreover, the weighted yield rose by 121 basis points to 104.13%; whereas the yield on 5-year bonds rose by 95 basis points to 97.95% and the yield on 10-year bonds increased by 10 basis points to 64.60% this week.

On August 26, the announcement by U.S. envoy Tom Barrack that Saudi Arabia and Qatar are prepared to invest in a new economic zone in southern Lebanon has injected a potential lifeline into the country's fragile transition process. The zone, strategically designed to generate jobs and attract investment, is being framed as part of a larger effort to create viable alternatives for Hezbollah fighters and affiliates should they choose to disarm. Hezbollah has long been financially sustained by Iran, which is estimated to provide around $500 million annually. These funds cover salaries, welfare services, and operations, including the payment of regular stipends to Hezbollah's nearly 80,000 members. Should the group disarm, as is now being debated, Tehran would almost certainly cut off this financial pipeline. Such a development would instantly leave tens of thousands without income and destabilize entire communities that rely on Hezbollah's payroll. The economic zone proposed above looks more than a political maneuver; it is a social and economic safety net intended to absorb the shock of disarmament and prevent 80,000 families from plunging into unemployment and poverty. Whether it becomes a reality, only time will tell!

The political framework for this transition is also beginning to take shape. The Lebanese Army is expected to submit its disarmament plan to the Council of Ministers on September 2, a step that will be decisive in determining whether Hezbollah's weapons can realistically be confined to state authority. However, significant complications hang over the timeline. The army commander himself has signaled that he may resign rather than oversee a bloody confrontation, emphasizing that he will not "shed blood" to enforce the process. This underscores the fragile balance Lebanon faces: disarmament without civil conflict is a delicate objective, and delays are already being hinted at. The gap between political promises and ground realities risks slowing the momentum, particularly if the Lebanese Army feels it lacks enough resources to implement the plan effectively.

	28/08/2025	21/08/2025	Change
BBI	20.220	20.211	0.05%
JP Morgan EMBI	972.14	967.93	0.43%
5Y LEB	97.95%	97.00%	95
10Y LEB	64.60%	64.50%	10
5Y US	3.69%	3.86%	(17)
10Y US	4.22%	4.33%	(11)
5Y SPREAD	9,426	9,314	112
10Y SPREAD	6,038	6,017	21

Conversely, in the U.S., Treasury yields fell this week, the 5-year bonds dropped by 17 basis points to 3.69%, and 10-year bonds by 11 basis points to 4.22%.

This fall coincided with the U.S. bond markets being rattled by political interference concerns as President Donald Trump moved to dismiss Federal Reserve Governor Lisa Cook over alleged misconduct, while signaling plans to replace her with a more dovish candidate. Cook has since filed a lawsuit to block the removal, underscoring the institutional tensions. This development sparked unease about the independence of the Fed, raising questions over whether monetary policy decisions are being dictated by political pressure rather than economic fundamentals. Markets interpreted the move as increasing the likelihood of earlier and more aggressive rate cuts, which directly pressured Treasury yields lower.

At the same time, Federal Reserve officials and incoming data have reinforced expectations that the central bank is shifting decisively toward easing. Chair Jerome Powell, speaking at Jackson Hole, noted that the labor market shows early signs of strain and that monetary policy remains restrictive, suggesting rate reductions could be warranted soon. Other officials, such as Governor Christopher Waller and New York Fed President John Williams, also signaled openness to a cut, aligning with market sentiment. Traders now see an 83-89% probability of a 25 basis point cut in September, a sharp rise compared to the previous week. These dovish expectations pushed the 10-year yield to two-week lows around 4.21-4.23% by Thursday, almost 20 basis points lower over the month.

On the data front, revised GDP figures showed that U.S. economic growth in Q2 was slightly stronger than initially reported, supported by business investment and trade. Still, markets are focused on signs of weakening momentum: durable goods orders, consumer confidence, and regional Fed surveys painted a mixed picture, while leading indicators suggested services inflation may be accelerating. Investors are now awaiting the PCE price index - the Fed's preferred inflation gauge - expected to show a 2.9% annual increase in July, the fastest pace in five months. Stronger-than-expected inflation could complicate the Fed's easing path, but for now markets are betting that labor market risks outweigh inflation persistence.

5Y Credit Default Swaps (CDS)

	28/08/2025	21/08/2025
KSA	61.01	62.85
Dubai	54.21	54.27
Brazil	136.80	141.87
Turkey	262.64	272.26

Source: Bloomberg

		Prices		Weekly	Yields		Weekly
Maturity	**Coupon in %**	**28/08/2025**	**21/08/2025**	**Change**	**28/08/2025**	**21/08/2025**	**Change bps**
28/11/2026	6.60%	19.521	19.505	0.08%	204.96%	201.30%	366.13
23/03/2027	6.85%	19.495	19.499	-0.02%	158.62%	156.25%	236.55
29/11/2027	6.75%	19.521	19.497	0.12%	107.79%	106.99%	79.43
03/11/2028	6.65%	19.495	19.499	-0.02%	78.46%	78.03%	43.04
26/02/2030	6.65%	19.547	19.505	0.22%	59.87%	59.76%	11.15
22/04/2031	7.00%	19.513	19.53	-0.09%	52.41%	52.26%	15.22
23/03/2032	7.00%	19.508	19.505	0.02%	48.16%	48.07%	8.91
02/11/2035	7.05%	19.511	19.548	-0.19%	40.09%	40.00%	9.02
23/03/2037	7.25%	19.512	19.514	-0.01%	39.61%	39.58%	3.38

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