

Lebanese Eurobonds Rally on Hezbollah Disarmament Bets; US Bonds Fall Amid War-Related Inflation Fears



March 6, 2026

Contact Information

Mira Said

Senior Research Analyst

mira.said@blominvestbank.com

	05/03/2026	27/02/2026	Weekly Change	Year to Date
BLOM Bond Index (BBI)	32.30	30.87	4.66%	33.60%
Weighted Yield	57.28%	59.06%	-3.02%	-15.55%
Weighted Spread	5,368.08	5,557.07	-3.40%	-16.53%

The **BLOM Bond Index (BBI)**, which tracks defaulted Lebanese government Eurobonds that haven't matured yet (excluding coupon payments), rose by 4.66% week-to-date to 32.3 points on March 5, 2026, a new record high since February 2020 (a month before Lebanon's default on its Eurobonds).

This rally reflects traders' bets that the ongoing Israeli-Iranian-Hezbollah war could weaken Iran and Hezbollah, easing prospects for Hezbollah's disarmament. Reinforcing this view, the Lebanese cabinet announced a ban on Hezbollah's military and security activities earlier this week, intensifying pressure on the group. Following the decision, the Lebanese army detained 27 individuals for illegal weapons possession, while the government pledged to arrest and deport any members of Iran's Revolutionary Guards found on Lebanese soil to "prevent any security or military activity."

If the party is indeed disarmed and weakened, this could strengthen stability and governance, pave the way for long-delayed reforms, and improve Lebanon's economic outlook by attracting foreign investment, boosting tourism—particularly from Gulf states—and expanding exports to markets such as Saudi Arabia. While off the record, disarming Hezbollah is widely seen as a prerequisite for an IMF deal to restructure Lebanon's debt.

However, implementation will be challenging—if not impossible—and risks triggering internal strife.

At the same time, Israel’s efforts have repeatedly weakened Hezbollah but have not succeeded in dismantling it, suggesting that the status quo may persist for years—pushing reconstruction costs ever higher.

Bond prices are now trading between 30.38¢ and 31.48¢ on the dollar for maturities ranging from 2027 to 2037. That said, *even if Hezbollah was disarmed, we still believe that Lebanese Eurobonds are overvalued given the lengthy timeline expected for reforms and debt restructuring, when accounting for the present value of money.*

Maturity	Coupon in %	Prices		Weekly Change	Yields		Weekly Change bps
		05/03/2026	27/02/2026		05/03/2026	27/02/2026	
23/03/2027	6.85	30.66	29.24	4.82%	168%	172%	(396.39)
29/11/2027	6.75	30.60	29.31	4.40%	96%	99%	(269.25)
20/03/2028	7	30.45	29.11	4.60%	83%	86%	(253.20)
03/11/2028	6.65	30.57	29.12	5.00%	64%	67%	(230.39)
25/05/2029	6.85	30.71	29.42	4.38%	55%	57%	(173.85)
27/11/2029	11.5	30.38	29.81	1.91%	60%	61%	(73.26)
26/02/2030	6.65	30.90	29.55	4.58%	46%	48%	(159.37)
22/04/2031	7	30.73	29.53	4.04%	39%	41%	(118.43)
20/11/2031	7.15	31.12	29.58	5.18%	37%	38%	(146.48)
23/03/2032	7	31.07	29.57	5.09%	35%	37%	(137.69)
17/05/2033	8.2	31.33	29.89	4.83%	35%	36%	(131.67)
17/05/2034	8.25	31.48	29.93	5.16%	33%	34%	(135.43)
27/07/2035	12	31.10	29.58	5.11%	41%	43%	(186.61)
02/11/2035	7.05	31.16	29.68	4.98%	28%	29%	(111.75)
23/03/2037	7.25	31.15	29.57	5.34%	27%	28%	(118.97)

As prices of 5- and 10-year bonds rose, their yields fell by 1 and 10 basis points, respectively.

	05/03/2026	27/02/2026	Weekly Change
JP Morgan EMBI	1,030.01	1,037.89	-0.76%
5Y LEB	42.59%	42.60%	(1)
10Y LEB	28.90%	29.00%	(10)
5Y US	3.72%	3.51%	21
10Y US	4.13%	3.97%	16
5Y SPREAD	3,887	3,909	(22)
10Y SPREAD	2,477	2,503	(26)

In the U.S., treasury yields rose this week, with the 5-year up 21 bps to 3.72% and the 10-year up 16 bps to 4.13%.

US president Donald Trump declared his commitment to "do whatever it takes" to contain Iran, increasing the chances of the US entering another extended conflict in the Middle East.

The longer the war drags on, the greater the strain on the energy sector, supply chains and food prices—given natural gas’s critical role in fertilizer production—leading to higher prices and consequently, rising inflation.

As inflation accelerates, traders’ expectations for the Federal Reserve’s policy path have tightened. According to LSEG, Fed OIS now imply mostly one rate cut in 2026, compared with a looser path priced in last week.

US FEDERAL RESERVE - PROBABILITY DISTRIBUTION (OIS)														
Meeting Date	Expected Target Rate	Cut	No Change	Hike	1.375	1.625	1.875	2.125	2.375	2.625	2.875	3.125	3.375	3.625
18-Mar-2026	3.6238	0.0	99.5	0.0										99.5
29-Apr-2026	3.5803	17.3	82.2	0.0									17.3	82.2
17-Jun-2026	3.5268	34.7	64.8	0.0								3.7	31.2	64.6
29-Jul-2026	3.4623	51.6	47.9	0.0						1.0	10.8	39.8	47.9	
16-Sep-2026	3.4056	62.5	37.1	0.0						0.2	3.2	17.4	41.7	37.1
28-Oct-2026	3.3533	70.2	29.3	0.0					0.0	0.8	6.2	22.5	40.7	29.3
09-Dec-2026	3.2966	76.9	22.7	0.0				0.0	0.2	2.0	9.9	26.6	38.1	22.7

Source: LSEG

Typically, rising inflation alongside a resilient economy points toward tighter monetary policy, especially since U.S. inflation was already above the Fed’s 2% target before the war. Under such conditions, short-term yields like the 2-year tend to rise faster than longer-term yields such as the 10-year, reflecting the Fed’s direct influence on short-term rates.

However, if markets anticipate the war lasting well beyond 2026, longer-term yields would also rise alongside shorter-term ones. While this dynamic could weigh on growth, historical precedent suggests the economy may remain robust. Even if a yield curve inversion occurs, it does not automatically signal recession.

5Y Credit Default Swaps (CDS)		
	05/03/2026	27/02/2026
KSA	84.55	82.57
Dubai	53.83	51.92
Brazil	53.83	51.92
Turkey	207.65	198.43

Source: Bloomberg

For your Queries:
BLOMINVEST BANK s.a.l.

Research Department

Zaituna Bay

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Mira Said

mira.said@blominvestbank.com

Research Department

Tel: +961 1 991 784

research@blominvestbank.com

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.