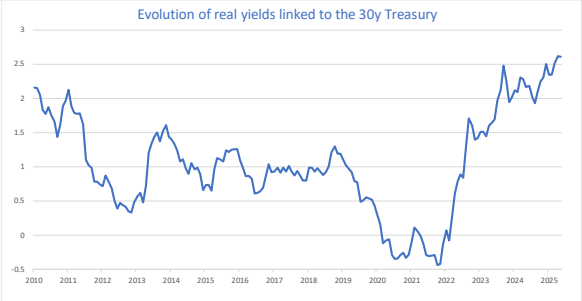
BASE INVESTMENTS SICAV

# SHADES OF DURATION VIEW — SEPTEMBER 2025

***In a market environment that has completely changed over the last ten years, how has the role of duration changed in bonds? Is it an opportunity or a trap?***




Source Bloomberg

After nearly a decade characterized first by financial repression and then by post-Covid inflation, we now find ourselves in a very different regime: high real rates, persistent but apparently under-control inflation, and central banks that, especially in America, remain cautious and data-sensitive. But above all, yield curves have regained their classic, upward-sloping shape. In this new environment, many are once again looking with interest at the long end of the government bond curve. But do long-duration bonds now represent an opportunity to be seized or a trap?

**The strategic role.** With long durations, even small interest rate movements can generate large swings in bond prices. This is why it is essential to understand whether the requested premium is appropriate to the risk assumed. For many institutional investors, duration isn't just a tactical choice, but a strategic leverage for risk management. Pension funds and insurance companies need long durations to offset long-term liabilities, so 20- or 30-year bonds become key building blocks in portfolio construction. The approach is different for a total return investor or a private individual. Even with a less structural approach, long duration can make sense today, especially if growth is expected to slow in the coming quarters. Furthermore, long-duration bonds have historically been among the most responsive instruments to negative macroeconomic surprises.

In a scenario of economic slowdown or hard landing, central banks will tend to cut rates, generating significant positive price movements on long-duration bonds, also serving as a good hedge against equity exposure. However, it is essential to evaluate their asymmetry. Current yields certainly offer more coverage than in the recent past, but in the presence of persistent inflation or fiscal risks, long-duration bonds may suffer significant drawdowns.

**What do the curves tell us?** Looking at the US curve, we see a marked positive slope, albeit far from the steepening peaks reached during the sovereign debt crisis. Two- and five-year Treasuries offer yields below 4%, while the 30-year segment stands near 5%. This structure indicates that the market expects a cut of interest rate in the future, but it also reflects long-term risks: higher structural inflation, lower potential growth, and above all, a delicate fiscal position for many, especially the United States. All of this probably means that the term premium, the extra yield required for longer-dated issues, could even rise further. On the other hand, long-term real interest rates, i.e., the yields paid by inflation-linked bonds (the excess return over inflation), could already represent excellent entry levels (2.6% in the United States), considering the Treasury's need to limit the cost of the huge US debt as much as possible. It is undeniable that yields at these levels exhibit great convexity, i.e., the ability to benefit disproportionately from favorable interest rate movements, limiting losses in the opposite direction. Long-duration bonds are therefore no longer the taboo they once were. With interest rates at more normal levels and new macro risks, they are once again a useful instrument, both as a source of income and as a strategic hedge. However, they are not suitable for everyone: they require patience, discipline, and active risk management.

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