

Our 3 calls for rates

2023 is shaping up to be a year of turning points, as market rates peak out and drop, and curves re-steepen as future cuts are contemplated, especially in the US



The US 2/10yr Treasury curve is currently heavily inverted

1 US 10yr to hit 3% and Euro 10yr swap to hit 2.5%

Market rates are projected to fall significantly in 2023. We think the US 10yr yield can fall from 4% to 3%, and the eurozone 10yr swap rate can fall from 3% to 2.5%. Note that our call is complicated by our view that these 10yr rates rise first, compared to where they are now, likely over the beginning of the year. The central rationale for the peak in market rates and subsequent falls is likely heights in Federal Reserve and ECB official rates in the first quarter.

2 Eurozone curve to steepen by less than the US curve

Compared with the ECB, the bigger falls projected for US market rates in 2023 reflect a higher probability for subsequent Fed cuts. This should correlate with a relative steepening of the US curve versus the eurozone one. This is a classic box strategy where the UD curve steepens out, and the eurozone's steepens less.

3 US curve to dis-invert

The US 2/10yr Treasury curve is currently heavily inverted, to the tune of -70bp. As a call for 2023,

we look for the curve to dis-invert completely. This reflects our view that sees the Fed cutting rates by the second half of 2023 to help cushion the economy once inflation has been tamed. Once we get to some three months before an actual projected cut, the 2yr yield can collapse lower to match the 10yr yield, and actual Fed cuts should correlate with the 2yr trading through the 10yr (classic positive curve).

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