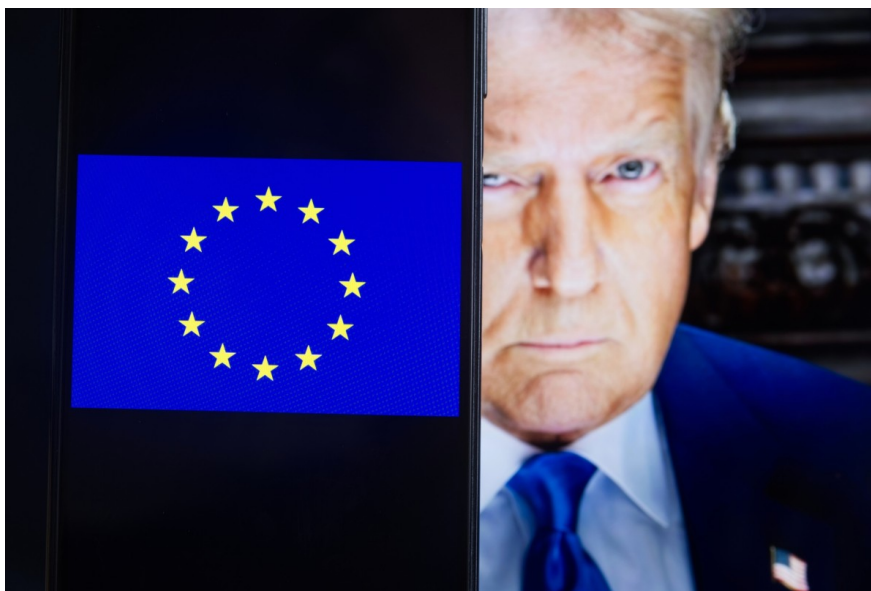


## Rates Spark: Volatile equities make bonds look better

Volatility in equities due to renewed tariff uncertainty and AI jitters is making bonds look more attractive on a relative basis. Where Italian government bonds would usually be on the losing side of a risk-off episode, this time we see that riskier EGB spreads are remarkably resilient to broader market volatility



Despite tariff tensions dragging the curve lower, European bonds could be attractive on a risk-adjusted basis

### European government bonds turning more attractive on a risk-adjusted basis

Risk sentiment is set to be the key driver of rates this week and, indeed, the revival of tariff tensions and AI jitters dragged the curve lower on Monday. Although tariff turmoil creates plenty of uncertainty that weighs on sentiment, the potential impact on the broader macro-outlook is more nuanced. So far, US tariffs on the eurozone from 'Liberation Day' last year have not thwarted the gradual but persistent growth recovery. A slightly lower rate would benefit the EU but is also unlikely to be a game-changer. The impact on the US economy is possibly larger as a new round of tariff uncertainty does not bode well for investor confidence. And indeed, the bullish move in UST yields was more pronounced.

But the tariff story cannot be seen in isolation from ongoing AI jitters, as these add to fragile risk sentiment. Investors are increasingly selective about the impact of AI on various business models, and we are unlikely to see the end of this anytime soon. In effect, this means volatility in equities can remain elevated for a prolonged period of time. That does beg the question – are bonds then starting to look more attractive on a risk-adjusted basis? And indeed, the 10Y BTP-Bund spread is still hugging lows of around 60bp. European government bonds are traditionally sensitive to equity volatility, but don't seem that vulnerable this time round, and might even be on the winning side.

## Tuesday's events and market views

Apart from French confidence indicators, we don't expect any notable data from Europe. From the US, we have the Conference Board consumer confidence indices, whereby consensus sees the headline index rise from 84.5 to 87.0. The weakening consumer sentiment in the US remains a concern and therefore a tick back up would help the growth outlook. Other data includes the Richmond Fed manufacturing indices and the weekly ADP figures. The latter will be closely watched to gauge the cooling jobs market.

In terms of supply, we have a Spanish syndication of a 30Y SPGB for an estimated €7bn. Italy will auction a 2Y BTP together with 5Y and 10Y BTPei for a total of €4.5bn. From the US we have a 2Y Note auction totalling \$69bn.

## Author

### Michiel Tukker

Senior UK & Eurozone Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

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