ODDO BHF

CIO VIEW

14 August 2026

THE RETURN OF INTEREST: WHY MONEY HAS A PRICE AGAIN

Peter Reichel
Chief Investment Officer
Private Wealth Management, ODDO BHF SE

- Real yields are at a long-term high
- High financing requirements are shaping the government bond market
- New challenges for strategic asset allocation

For more than a decade, investors have lived in a world where money cost virtually nothing. The leading central banks kept key interest rates at zero – and in the case of the ECB, even below zero – yields on ten-year US government bonds hovered close to zero, and equity valuations were supported to a significant extent by the prospect of cheap capital. That era is over. Currently, ten-year US Treasury bonds are yielding 4.7 per cent in nominal terms, ten-year German government bonds are yielding approximately 3.2 per cent, and other government bonds from major eurozone countries are yielding between 3.5 and just under 4 per cent. Interest rates have returned, and this development is fundamentally changing the investment landscape.

The extent of the change is perhaps best gauged by real interest rates – in this case, the yields on inflation-indexed bonds. These are more meaningful for investors than nominal yields, as they also take account of inflation. Five years ago, in August 2021, the real yield on ten-year US government bonds was negative – taking expected inflation into account, investors were losing around 1 per cent a year on US Treasuries. It was not until May 2022 that the real yield turned positive, and it now stands at around 2.4 per cent.

Figure 1: 'Real' yield on the ten-year US inflation-indexed government bond since 2001

Source: Bloomberg, period 1 January 2001–13 August 2026; the bond offers a separate inflation adjustment in line with actual price movements, meaning that the market yield can be understood as the real yield

Admittedly, this is not a historic high. However, we are once again at a level last seen in the years leading up to the 2008/09 financial crisis – 18 years ago now. The trend for German government bonds has been similar. Yields across all maturities had fallen deep into negative territory. It is only since June 2023 that it has been possible to make a real profit on German government bonds again. At the start of August 2026, the yield on the ten-year inflation-indexed bond stood at 0.9 per cent.

These developments underscore just how fundamentally the interest rate environment has changed. Three factors have driven yields upwards:

1. Tight monetary policy: From 2022 onwards, the Fed and the ECB raised key interest rates sharply in the fight against surging inflation. This caused nominal yields to rise more sharply than inflation expectations, which in turn pushed up real yields.
2. Quantitative tightening: Central banks have ended the bond-buying programmes initiated during the 2008 financial crisis and reduced the size of their balance sheets. The shift by major central banks from being buyers to sellers has further pushed up yields (both nominal and real).
3. Higher term premium: On the one hand, energy price shocks and trade policy have contributed to a reassessment of inflation risks. On the

other hand, rising government debt is increasing the supply of government bonds on the market, as is the high funding requirement for investment in the technology sector. Given the increased issuance activity, investors are demanding higher premiums for holding long-dated bonds. ‘Higher for longer’ is the buzzword on the bond markets here.

Interest is not a modern phenomenon, but the subject of a centuries-old economic debate. Whilst interest was long viewed critically, the realisation that time, risk and the tying-up of capital possess legitimate economic value increasingly gained ground in the early modern period. It is precisely this insight that the capital markets reflect today: those who tie up capital for the long term expect appropriate compensation in return.

A significant portion of the yield on Treasuries is likely to be attributable once again to the term premium – and thus to the compensation investors demand for tying up their capital over a long period. In the zero-interest-rate environment, this premium was often negative or close to zero. Its current level signals that investors are once again attaching a real price tag to long-term uncertainty – to inflation, to fiscal risks and to the question of who will finance the growing public debt in the future.

The geopolitical and geo-economic environment has also changed. Trade conflicts, geopolitical rivalries and regional conflicts are increasing uncertainty and tend to drive up prices. Inflation risks appear to be more prominent once again. Investors are therefore demanding higher compensation for long-term risks and for the uncertainty surrounding the future real purchasing power of their investments.

Taken together, these factors lead to a shift in the assessment of risks: investors are demanding higher compensation for purchasing bonds whose real purchasing power appears less secure than in previous decades.

As trustees of our clients’ assets, we are keenly aware of this signal. We do not anticipate either a sovereign debt crisis or a sustained surge in inflation. However, we do recognise structural factors that could keep interest rates higher for an extended period. This explains why yields remain elevated, or may even rise further at times, even in an environment of falling key interest rates. For companies and investors, this means that financing costs are becoming a more significant factor. The cost of equity may also rise if the risk-free rate – used as a benchmark for investment decisions – increases.

This shift does not affect all asset classes and companies equally. Growth-oriented business models, whose valuations depend on cash flows far into the future, tend to be hit harder. The higher the discount rate at which future profits are discounted, the more the present value of these future earnings shrinks. This principal of financial mathematics particularly affects young, capital-intensive growth stocks with low margins. Conversely, companies with stable, predictable cash flows and robust balance sheets are becoming relatively more attractive. Pricing power, moderate debt levels and recurring income provide an advantage in the competition for investor capital in an environment of positive real interest rates.

For investors, the shift in interest rates presents an opportunity: whilst investors were forced to take on higher risk to achieve returns during the years of zero interest rates, it is now possible – even when taking inflation into account – to generate an attractive return with high-quality bonds. This changes the logic of portfolio construction: bonds are once again delivering an independent contribution to returns, rather than merely providing risk diversification as in previous years. Short-term money market investments can currently generate attractive current returns and, due to their short maturity, are generally associated with lower interest rate and price risks.

The return of interest rates is putting investment decisions on a new footing. Careful strategic asset allocation is regaining importance. Anyone whose portfolio is geared towards permanently cheap capital should check whether their equity allocation, duration and quality requirements for corporate balance sheets still fit the new interest rate reality. After years of the zero-interest-rate anomaly, the capital markets are providing a clear answer: money is once again a scarce commodity with a price. Valuation discipline matters once more, and a balanced, strategically sound portfolio remains the best foundation for preserving and growing wealth in the long term.

Peter Reichel

ODDO BHF SE
Private Wealth Management
Investment Office

The legally required disclosures relating to ODDO BHF SE can be found here. The contents of this email may contain confidential information intended solely for the recipient. If you are not the intended recipient, please notify us accordingly and delete this email without making a copy of it.

Important notes:

The information and views contained in this document are provided for informational purposes only and do not constitute investment advice or an investment recommendation within the meaning of the German Securities Trading Act (Wertpapierhandelsgesetz). The analyses should not be construed as a recommendation to buy or sell specific financial instruments. Past performance is not a reliable indicator of future results. Markets are subject to fluctuations, and the value of an investment may rise as well as fall. Statements regarding future market developments are based on assumptions and estimates that may prove to be inaccurate. To the extent that this report discusses specific securities, sectors, or markets, such discussions reflect the current opinion of the Investment Office of ODDO BHF SE at the time of publication and may change at any time as a result of changing market conditions, competitive dynamics, or regulatory and economic developments. The Bank does not guarantee that the securities or market segments mentioned will achieve the expected performance.