

# Flash

We answer more of your questions

## Key Messages

1. The recent spike in **German 10-year bond yields** reflects **inflation uncertainty** (amplified by Middle East tensions) rather than structural growth shifts, with the **real yield** anchoring expectations. However, the ECB's 2% inflation target and stable growth potential suggest nominal yields create **buying opportunities in core eurozone long-dated sovereigns**.
2. **AI-driven growth, led by US hyperscalers' surging Capex and breakthroughs with Anthropic/Meta's new models, remains robust**, positioning the IT sector as structurally resilient to energy cost pressures. That said, persistent market risks warrant cautious exposure despite the sector's long-term upside.
3. The financial impact of oil product supply disruptions on companies varies according to **cost exposure, substitute availability, and pricing power**, with effects ranging from modest to severe if shortages persist and if inventories are heavily depleted. Higher prices may partially offset volume declines.

### 1. Has the German sovereign bond yield peaked? Now a buying opportunity?

In recent weeks, the yield on the German 10-year sovereign bond has rebounded sharply, temporarily exceeding 3.1%. This move is mainly attributable to a significant rise in inflation uncertainty, amplified by the Middle East crisis.

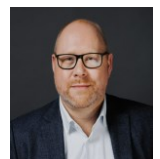
The bond yield has two components: an inflation component and a real, inflation-adjusted component (i.e. correcting for purchasing power), which depends on the economy's potential growth.

The real component is measured through inflation-linked bonds. These securities pay a real coupon plus the realized (i.e. actual) inflation over a given period. For example, such a bond may provide a 1% annual coupon together with the observed inflation. At the beginning of April, the real term yield to maturity of a German inflation-linked sovereign bond with a 10-year horizon was around 0.7%. By contrast, a nominal (non-indexed) bond offered a yield of roughly 3%. The 2.3% spread therefore reflects, at first glance, 10-year inflation expectations. However, this simple difference can be biased by other factors, notably an inflation risk (or uncertainty) premium.

We see no reason to doubt the ECB's ability to return inflation to around 2% on average over the next few years. Real yields depend primarily on the economy's growth potential, which we estimate at roughly 0.7%. Even after adding an uncertainty premium, it is realistic to expect nominal yields to return to a range of approximately 2.7%–3.0% within a year. We thus see buying opportunities on longer-dated government bonds in core eurozone countries such as Germany.

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## 2. Is the evaporation of the Tech premium, leading to multi-year lows, a good entry point?

AI remains the main driver of tech sector growth. US hyperscaler AI capex expectations continue to inflate. The ongoing optimism is fuelled by the launch of new power model AI agents from Anthropic and Meta as well as positive statements from AI heavyweights such as Anthropic. The company recently stated that its run-rate revenue should soon surpass USD 30bn.

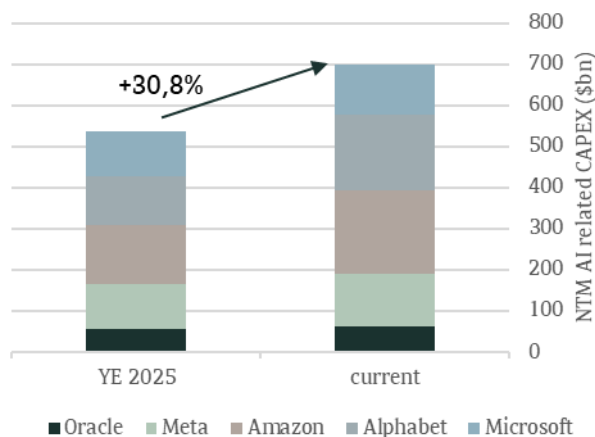
This comes on the back of increasing uptake of AI tools by the corporate sector, especially in smaller companies. Given the rerating and the structural growth opportunity that the IT sector represents, we see increasing value in the sector. It should be better isolated from higher energy costs than more cyclical markets. However, due to overall stock market risks we still advise proceeding with caution.

## 3. What is the impact from the disruptions in oil products, aluminium, or helium on corporate earnings?

The impact on corporate earning will depend on three factors:

- i) **The share of total input costs that is dependent on those products**, and the availability or not of ready substitutes. The degree to which the producer commands pricing power is also important in determining their ability to defend profit margins.  
The ultimate cost impact varies widely across industries and geographies. Let's take helium within semiconductors as an example. The impact of more expensive helium on the overall cost of a silicon chip should be modest because helium generally comprises just 0.5%-1% of production costs.
- ii) **Operational constraints.** Due to supply shortages, these will pose a bigger threat if Gulf-related disruptions persist and stocks become depleted.
- iii) **The negative effect on falling production volumes**, although we expect rising prices to compensate any such effect, at least partially.

### AI CAPEX IS EXPECTED TO GROW FURTHER



Source: Bloomberg, BNP Paribas

### GERMAN 10-YEAR BOND YIELD



Source: Bloomberg, BNP Paribas

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