Maybe, just maybe, this whole bond rout is ending.

The global selloff that’s set investors on edge finally slowed last week, and some analysts are saying the worst is over. Treasuries look fairly valued given the outlook for inflation and interest rates, according to Bank of America Corp. -- although with plenty of caveats. In Germany, options traders convinced a bund-market crash was all but inevitable less than two weeks ago have scaled back most of those bets.

Goldman Sachs Group Inc. warns that government debt is still expensive, but a growing number of investors are finding value after the four-week exodus sent yields soaring. Prudential Financial Inc.’s Robert Tipp is buying because tepid U.S. growth will keep the Federal Reserve on hold, while Europe remains too weak to sustain higher yields.

And don’t forget about central banks in Europe and Japan, which are buying billions of dollars in bonds each month.

“There’s a good chance people will look back at this as having been a good buying opportunity,” Tipp, the chief investment strategist at Prudential’s fixed-income unit, which manages $560 billion, said from Newark, New Jersey.

Ten-year U.S. notes posted their first weekly gains since April 17, while German bunds pared some of their losses.

That lessened the pain of a selloff that lopped off hundreds of billions in market value from sovereign debt in the developed world, data compiled by Bloomberg show.

Long Shot

The retreat first began in Europe as signs of inflation emerged with the ECB’s most-aggressive quantitative easing yet. Yields surged, especially in markets such as Germany where negative rates prevailed, then quickly spread around the world as DoubleLine Capital’s Jeffrey Gundlach and Federal Reserve Chair Janet Yellen suggested bonds were overpriced.

Yields on 10-year Treasuries, which reached a low of 1.82 percent in April, rose to 2.36 percent on May 12 before ending the week at 2.14 percent. The yield was 2.15 percent as of 12:18 p.m. in Tokyo.
In Germany, where average yields for the entire market dipped below zero for the first time ever last month, bunds soared to 0.78 percent before falling to 0.62 percent Friday.

The speed and magnitude of those losses still pale in comparison to previous market meltdowns, including the “taper tantrum” that then-Fed Chairman Ben S. Bernanke touched off in May 2013. And there’s little chance of a repeat now, even if yields jump further in the near-term, according to Priya Misra, Bank of America’s head of U.S. rates strategy.

Split Decision

Not only has a raft of U.S. economic releases -- from retail sales to consumer confidence and factory production -- been so disappointing, the data hasn’t nearly been strong enough to trigger the kind of inflation what would prompt bond investors to demand much higher yields.

“For the bull market to be over, we need robust global growth and inflation,” said Misra, who forecasts 10-year yields will end the year at 2.35 percent. “Fundamentals don’t argue for much higher yields.”

Misra points to the “term premium” metric, which measures the extra yield that 10-year debt offers over short-term rates. In mid-April, it was minus 0.35 percentage point, a mis-pricing that suggested yields were too low. It’s now closer to zero, enough to compensate buyers in a world where inflation is weaker than at any time in a quarter century.

Some analysts remain unconvinced. Last week, Goldman Sachs boosted its year-end yield forecasts for both Treasuries and German bunds, saying the “valuation gap is still sizable” and will only grow as the global recovery takes hold.

Shock Value

The firm now sees the 10-year U.S. note ending at 2.75 percent, from 2.5 percent before, and comparable bund yields at 0.9 percent, versus its prior estimate of 0.5 percent.

“There is no question that rates are going to be going higher,” based on our forecasts for U.S. growth and Fed rates, as well as a more stable Europe, said Eric Green, the head of U.S. economic research at TD Securities USA.

Lower inflation and tepid growth in the U.S. still mean there’s less room for the Fed to surprise the market, unlike in 2013. That’s when Bernanke shocked investors with his comments about reducing the Fed’s bond buying and prompted them to move up their projections for when near-zero rates would end.

Based on Morgan Stanley’s analysis of futures trading, traders have pushed back their bets for the Fed’s first rate increase to January, from September just a month ago.

Fed officials have steadily lowered their forecasts for how high rates ultimately need to rise to 3.75 percent, from as high as 4.25 percent in January 2012. The overnight target rate has been close to zero for more than six years.

‘Tinder Keg’
“The Fed is making its way to a well-telegraphed rate hike at the same time the economic data is weak,” Tipp said. “You don’t have the same tinder keg as you had then.”

In Germany, alarm over deeper declines have dissipated. The relative cost of bearish options versus bullish contracts on bund futures has plunged since reaching an unprecedented high on May 7, data compiled by JPMorgan Chase & Co. show.

BNP Paribas SA said the euro-area bond slump is nearing an end, while Societe Generale SA said higher-yielding sovereign debt in the region will recoup much of its losses.

To David Ader, the head of government-bond strategy at CRT Capital Group, the latest bout of selling had more to do with panic-stricken buyers fleeing the same trades they all crowded into, rather than a change in the underlying economic outlook.

While deflation worries have ebbed in Europe, economists surveyed by Bloomberg expect consumer prices this year to rise 0.1 percent for the 19 nations that share the euro.

That, plus the fact the ECB plan to keep buying sovereign debt through September 2016 means yields will remain anchored.

“It was a panic, vomitous, puke of positions,” Ader said. Now, “we’re reversing course.”