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Headline: The Transition to a Higher Cost of Capital

Article Link: https://www.bridgewater.com/research-and-insights/the-transition-to-a-higher-cost-of-capital

Author(s)	Karen Karniol-Tambour
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Tweet: Bridgewater Associates co-CIO Karen Karniol-Tambour expects 10-year Treasury yields to rise from the current ~4.5% to compensate for structurally higher fiscal borrowing and investments in AI, remilitarization, rebalancing of supply chains, and energy.

Summary: Bonds are clearing at the roughly 4.5% yield levels we've seen. This is pretty low relative to the short-term interest rate of 5.5%, and even with expectations of some easing ahead of us, it is hard to argue there is much risk premium in that yield level. Even 4.5% yields were sufficient to persuade bond buyers to begin to normalize their abnormally low bond holdings. This can be thought of as "pent-up demand" for bonds, which slows the process of adjustment to a new cost of capital. Bond yields still need to rise to set a price of capital that is sustainable for the world we're in, compensating for structurally higher fiscal stimulation and inherently inflationary spending on things like AI investments, remilitarization, rebuilding supply chains to reduce reliance on China, the energy transition, and energy security.

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