

Rising Global Long-Term Bond Yields

Causes and Impacts



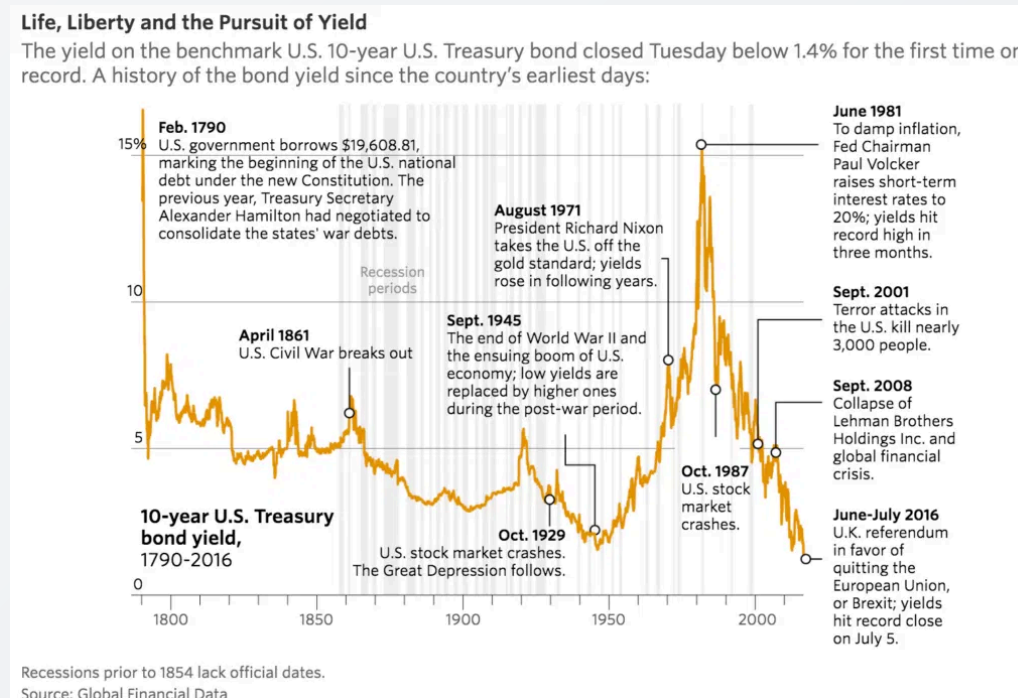
September 2025

Introduction to Bond Yields

What are bond yields? The return an investor realizes on a bond investment. The yield is expressed as an annual percentage rate and is inversely related to bond prices.

Why they matter: Bond yields serve as benchmarks for mortgage rates, consumer loans, and influence overall economic activity. They also reflect market expectations about inflation, economic growth, and monetary policy.

Current trend: Long-term bond yields have been rising globally due to inflation concerns, fiscal deficits, increased government debt, higher term premiums, and shifting investor confidence.

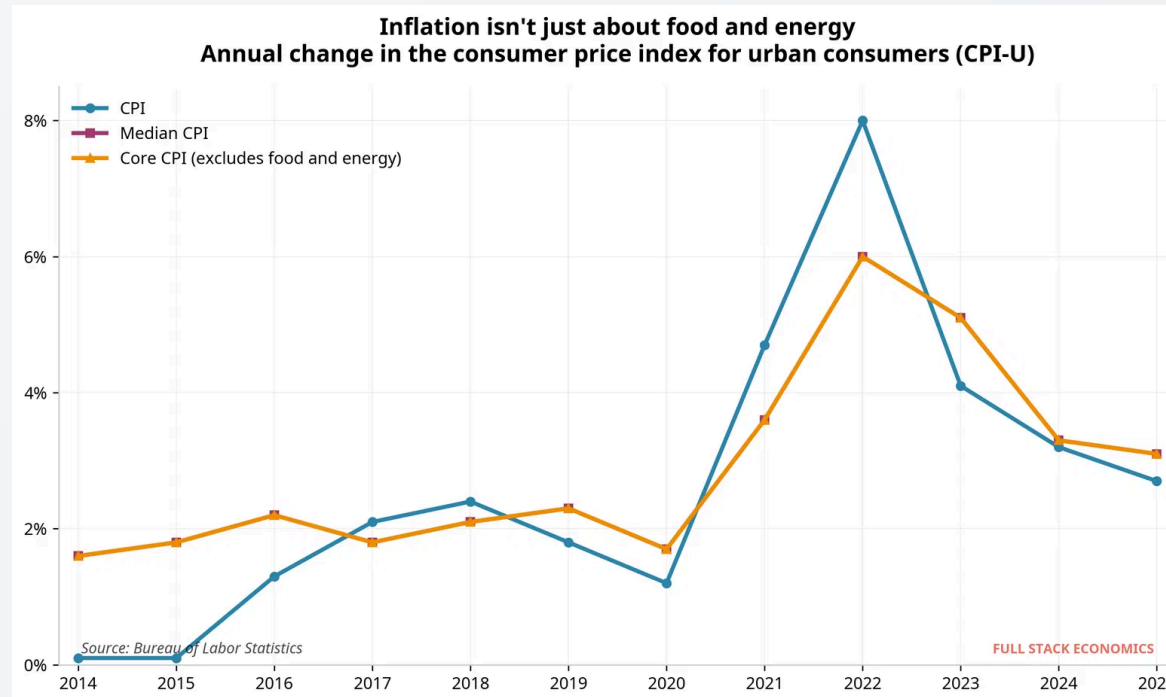


Key Driver: Inflation and Expectations

Inflation erodes bond value: Rising inflation decreases the purchasing power of future bond payments, pushing investors to demand higher yields as compensation.

Expectations matter: Even the **anticipation** of future inflation can drive yields higher as investors price in expected erosion of returns.

Recent impact: While actual inflation expectations have played a limited role in recent months, the memory of high inflation has kept real yields and term premiums elevated.



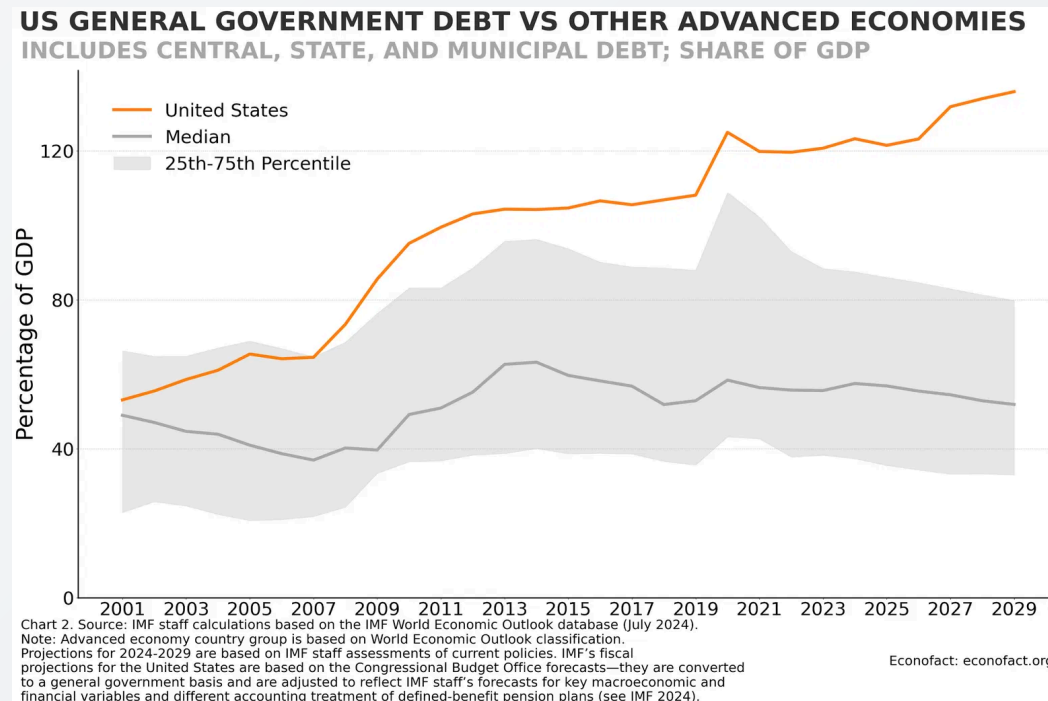
Source: Bureau of Labor Statistics (Updated through July 2025)

Key Driver: Fiscal Policy and Debt

Expansionary Fiscal Policies: Governments across major economies have enacted looser fiscal policies, leading to larger budget deficits that increase the supply of bonds in the market.

Growing Debt Burden: Ballooning government debt levels raise concerns about future debt servicing costs and fiscal sustainability, resulting in higher risk premiums demanded by investors.

Market Impact: Increased bond issuance to finance deficits creates supply-demand imbalances, pushing yields upward as markets require higher compensation for absorbing additional debt.

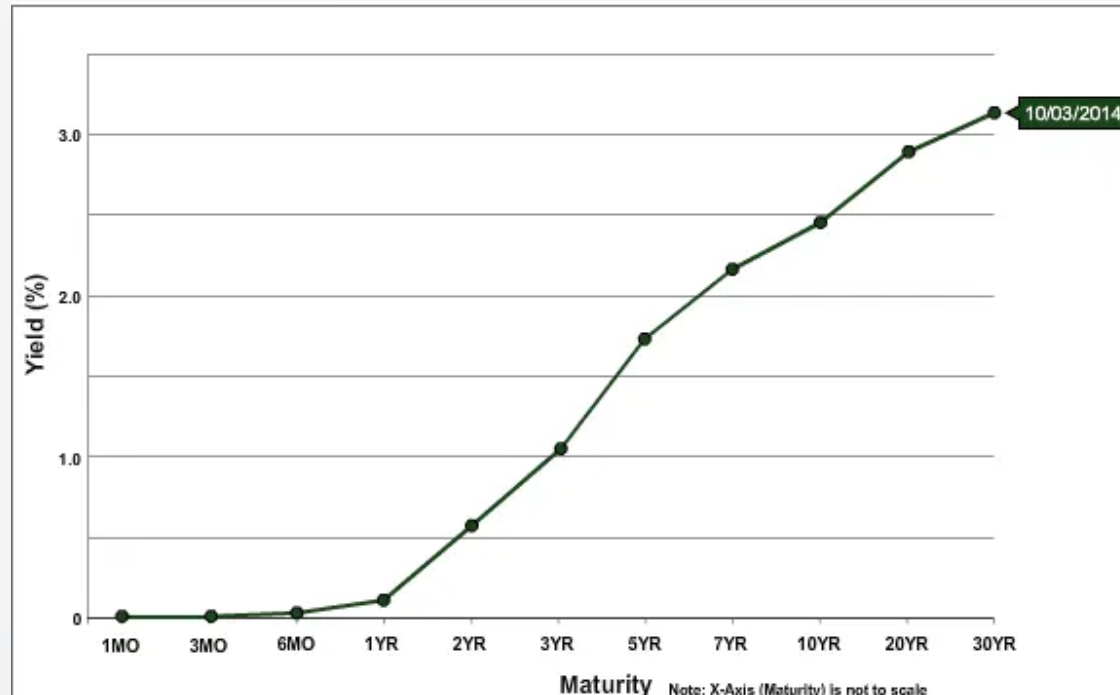


Key Driver: Term Premium and Risk Appetite

What is term premium? The **extra yield** investors demand for holding long-dated bonds versus rolling shorter-term bonds. It compensates for uncertainty and risk over longer time horizons.

Why it's rising: Term premium has surged due to greater uncertainty about future growth, inflation, and fiscal discipline. This reflects increased risk perception in long-term government debt markets.

Impact on yields: Higher term premiums directly contribute to elevated long-term bond yields, even when short-term rates remain stable or are expected to decline.



Key Driver: Central Bank Policy

Policy Influence: Even as central banks were expected to cut short-term interest rates, long-term yields have risen due to market skepticism about their ability to control inflation and manage mounting government debt.

Rate Cut Delays: The slow pace of rate cuts by major central banks has contributed to persistent higher long-term yields, as markets price in longer periods of restrictive monetary policy.

Labor Market Impact: Strong job markets, especially in the US, have reduced the urgency for central banks to cut rates, resulting in sticky long-term yields despite economic uncertainties.

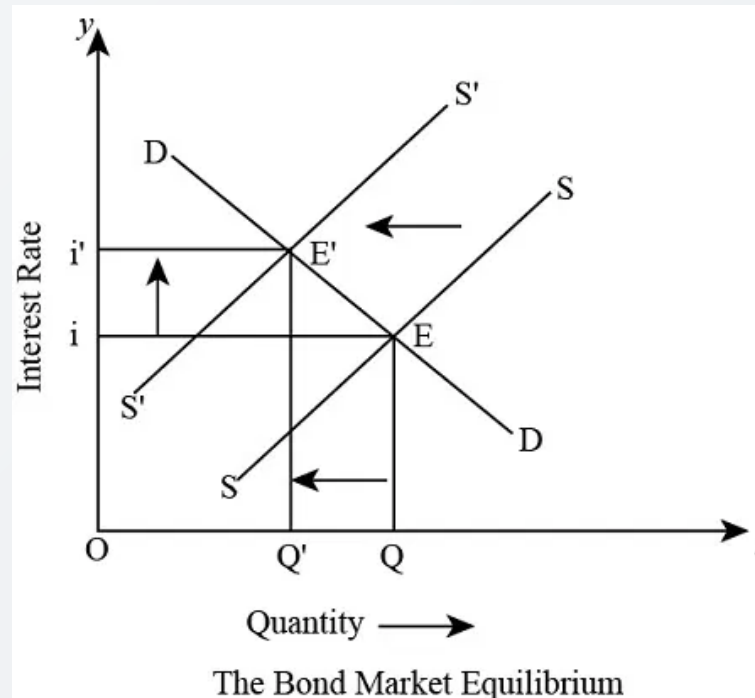
Credibility Concerns: Questions about central bank independence and their commitment to inflation targets have increased risk premiums in long-term government bonds.

Key Driver: Investor Confidence and Shifts

Investor Preferences: Shifts in investor preference—moving away from safe government debt to riskier or alternative assets—have contributed to higher yields as demand for bonds decreases.

Risk Aversion: Spreads between government and credit-sensitive bonds have widened, reflecting increased risk aversion and changing market sentiment.

Market Equilibrium: When investor confidence in government bonds decreases, the demand curve shifts left (D to D'), resulting in lower prices and higher yields to attract buyers.



Global Impact of Rising Yields

Consumer Borrowing Costs: Rising long-term yields directly affect mortgage rates, auto loans, and consumer credit, increasing borrowing costs for households and businesses worldwide.

Asset Repricing: Higher yields can trigger repricing of assets like stocks and real estate, potentially leading to market volatility and wealth effects that impact consumer spending.

Economic Growth: If rates climb too quickly, economic growth may slow as investment and consumption decline due to higher financing costs and tighter financial conditions.

Currency and Global Markets: The **US dollar's reserve status** means American yield movements influence global markets, affecting currency values, capital flows, and emerging market stability.

Summary: Main Causes of Rising Yields

Long-term bond yields are elevated because markets are pricing in greater risks related to inflation, fiscal sustainability, and macroeconomic uncertainty around the world.

Factor	Description
Inflation Expectation	Higher or uncertain inflation forecasts erode future bond value
Fiscal Deficits	Increased government spending and debt levels create supply pressure
Term Premium	Higher compensation demanded for risk and uncertainty over longer horizons
Central Bank Policy	Delayed rate cuts and doubts over inflation control capabilities
Investor Confidence	Weaker appetite for government bonds amid shifting preferences

