Daily: Bond markets are repricing more than inflation

UBS CIO · 2026-08-27 · English original

From the studio

Video: Top of Mind APAC | Min Lan Tan on Asia 's 'BROAD' opportunities (6 mins)Video: Market Playbook | Why commodities, including copper, are attractive (5 mins)Video: CIO Monthly | Kiran Ganesh on market drivers, scenarios, and opportunities (4 mins)Podcast: How AI may complicate inflation signals, on Apple and Spotify (6 mins)

Thought of the day

Long-end Treasury yields are retreating ahead of the Jackson Hole policy summit, continuing their descent since hitting last week's highs. A combination of the US Treasury buyback plan and easing concerns over oil supply disruptions in the Middle East has helped drive yields lower, although firmer-than-expected US core PCE data on Wednesday was a reminder that the path to lower inflation may remain uneven.

As it stands, 30- and 10-year Treasury yields are down roughly 16 and 9 basis points, respectively, from last week's peaks. Long-dated European government bond yields have also moved lower, while Brent crude has declined around 7.4% this week amid a less confrontational US-Iran backdrop.

Falling yields and lower oil prices have provided a welcome respite for bond markets. But they do little to change the structural forces that we believe may keep long-term borrowing costs elevated:

Fed uncertainty is lifting risk premiums. The bond market is adjusting to a less predictable Federal Reserve communication framework under Chair Kevin Warsh. The Fed has placed less emphasis on forward guidance, while markets are also considering the implications of a smaller balance sheet over time. This increases uncertainty around the central bank’s reaction function and raises the compensation investors demand for holding long-duration assets. The recent pullback in oil prices strengthens our view that a September Fed hike is unlikely, although the timing and pace of future easing remain uncertain.

AI investment is reshaping bond markets. Large US technology companies are increasingly issuing debt to finance AI-related capital expenditure. Their preference for longer-dated borrowing is creating additional competition for investor capital at a time when government funding needs are already substantial. If AI investment remains elevated, corporate issuance could continue to pressure long-term government bond yields, even if the economic outlook remains supportive. In this sense, higher yields reflect not only fiscal concerns but also strong private-sector demand for capital.

Fiscal pressures are becoming structural. Persistently large budget deficits, rising debt levels, and elevated borrowing requirements across major developed economies are contributing to higher long-term yields globally. The Treasury investor base has also shifted away from relatively price-insensitive buyers, such as central banks, toward private-sector investors who are more sensitive to valuations. Long-term yields may therefore need to remain higher than in the post-financial-crisis era to attract sufficient capital. Treasury buybacks may improve market functioning, but they do not resolve the underlying fiscal imbalance.

So we view the rise in long-end Treasury yields less as a red flag for risk assets, and more as an ongoing repricing of structural risks. We continue to favor high-quality government and corporate bonds in the short- to intermediate-maturity segment, where attractive income provides a cushion against further volatility, while remaining cautious about aggressively extending duration into the long end.

We also retain a constructive view on equities, supported by robust AI investment, broadening earnings growth, resilient economic activity, and moderating inflation. However, the next phase of the rally is likely to broaden across companies, sectors, and regions. Investors should combine a diversified global equity allocation with targeted exposure to AI and tech, but also cyclical opportunities in financials, industrials, consumer discretionary, and health care. Finally, we think continued fiscal concerns, a gradually declining US dollar, and uncertainty over long-term bonds all serve to reinforce the case for diversification through gold, commodities, and select foreign currency exposure.

Read more on long-end yields in our recent CIO research report, “The long bond summer break(out).”

Source: https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-27082026.html