



TREASURY YIELDS PUSH TO MULTI-DECADE HIGHS, AND HISTORY SAYS THEY MAY CLIMB FURTHER

October 2026

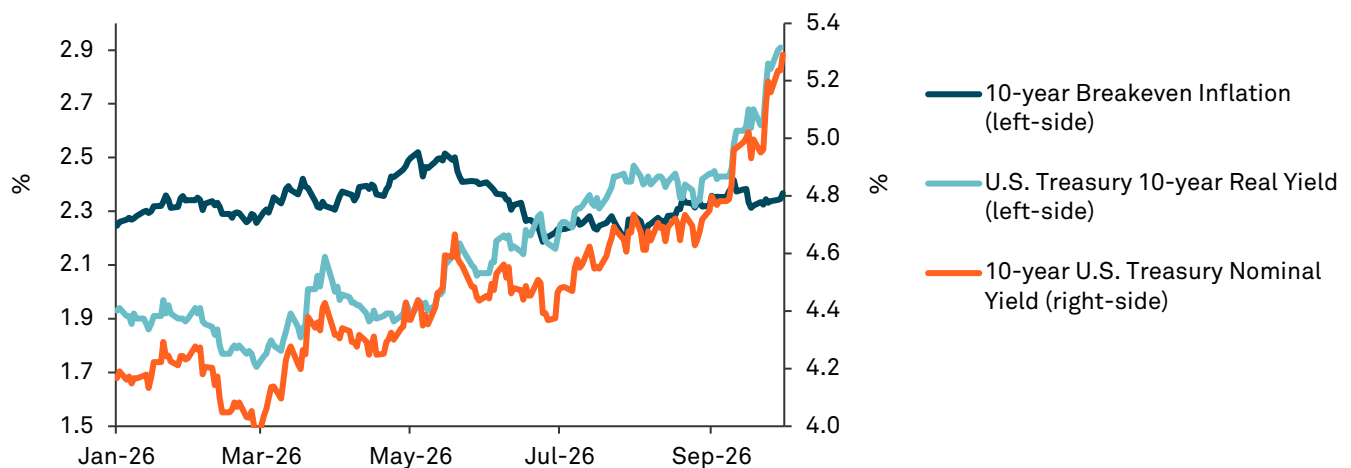
KEY POINTS

- Yields have moved sharply higher in the U.S., driven mainly by real rates and stronger growth expectations.
- Past Fed tightening cycles show that long-term yields often continued to rise in the months following the first hike, particularly when inflation was elevated.
- Equity markets have remained relatively resilient, but rate-sensitive sectors are beginning to feel the pressure.

A sharp repricing has pushed 10-year U.S. Treasury yields to around 5.30% following the Federal Reserve's (Fed) 25 basis point (bp) hike in September, with real yields doing the heavy lifting. Yields are up roughly 55bps in the last month and 125bps from February, before the Iran conflict began to roil energy markets. While yields have risen globally, the increase has been more pronounced in the U.S. as expectations for future Fed rate hikes have shifted.

The recent increase has been driven mainly by real yields. Markets are now pricing in around four additional Fed hikes through the end of 2027, pushing 10-year real yields to 2.90%, their highest level since 2008. Inflation breakevens have remained stable throughout the recent selloff, with the 10-year breakeven holding around 2.35%. This suggests the rise in yields reflects a stronger nominal growth backdrop rather than a repricing of materially higher inflation risks.

U.S. 10 Year Treasury Yields (Real and Nominal)



Source: Bloomberg as of September 30, 2026. Charts are for illustrative purposes only.

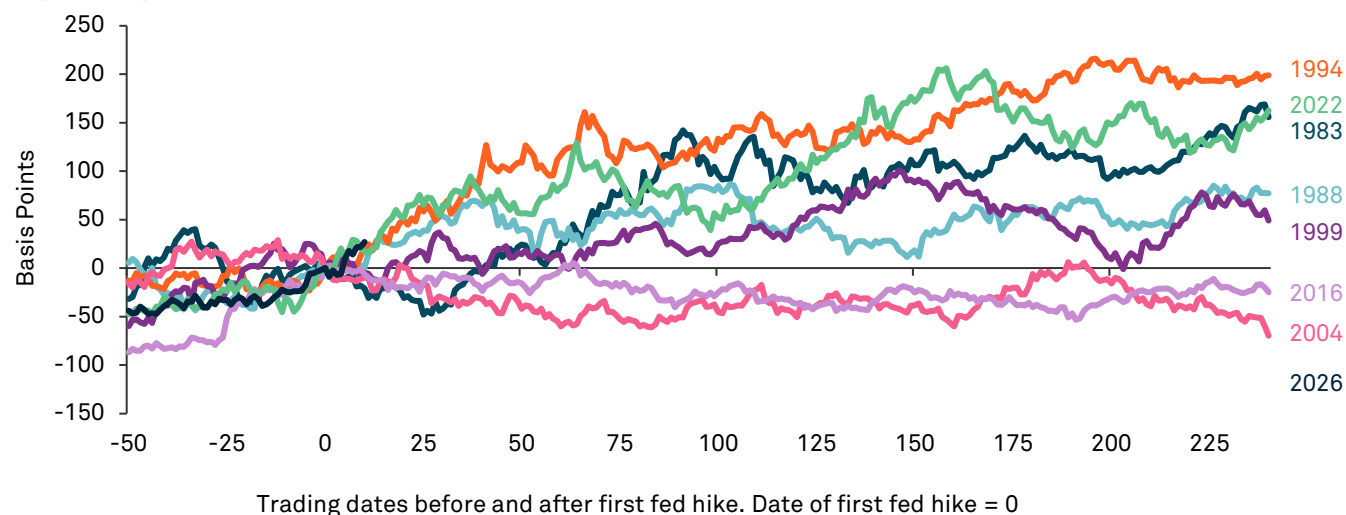
History Points to More Upside

Given the pace and scale of the move in bond yields, we believe that current levels are beginning to look increasingly attractive. Yet history suggests that yields may still have further room to rise before stabilizing. In the last seven Fed tightening cycles, yields generally moved higher and curves flattened in the months after the first hike, before stabilizing three to six months later. On average, the 10-year Treasury yield rose 43bps within six months. While it is still early, the current cycle has broadly followed this pattern.

The data indicates that the risks remain skewed toward higher, rather than lower, long-term yields. The 10-year

yield fell following the first Fed hike in two of the last seven tightening cycles, in 2004 and 2016, when inflation was more benign. By contrast, during the supply-driven inflationary environments of the 1980s and 2022, the 10-year yield rose between 150 and 200bps in the six months after the first hike as markets underestimated the amount of tightening needed to bring inflation under control. While the 2022 hiking cycle began from a very different starting point, with rates at the zero lower bound, financial conditions are easier today, supported by equity valuations.

Cumulative Change in 10-Year U.S. Treasury Yield (Basis Points) Around Start of Fed Tightening Cycles



Source: Bloomberg as of September 30, 2026 Notes: dates used are 3/29/1983, 3/29/1988, 2/4/1994, 6/30/1999, 6/30/2004, 12/14/2016, 3/16/2022, and 9/16/2026. Charts are for illustrative purposes only.

Equities Hold Up, for Now

Despite the sharp rise in yields and increased bond market volatility, the impact on equities has been relatively modest. Equity volatility, as measured by the VIX Index, remains subdued compared with bond market volatility, as measured by the MOVE Index. Strong AI-related capital investment and faster nominal growth are fueling corporate earnings, helping equity markets absorb higher rates so far. But the effects of higher rates are visible beneath the surface, with long-duration sectors such as real estate, utilities, and consumer discretionary under pressure.

Treasury yields have moved sharply higher, and history suggests there may be more room to run. Higher yields are beginning to weigh on rate-sensitive areas of the equity market, but stronger nominal growth and AI-driven investment continue to support broader risk assets.

Artificial intelligence (AI) refers to computer systems that can perform tasks typically requiring human intelligence, such as visual perception, speech recognition, decision-making, and language translation.

MOVE Index is a measure of implied volatility in U.S. Treasury bond markets, often called the “VIX for bonds,” reflecting market expectations for future interest rate fluctuations.

VIX Index (Chicago Board Options Exchange Volatility Index) is a real-time market index that measures the market’s expectations of S&P 500 volatility over the next 30 days, often called the “fear gauge” because higher values indicate greater uncertainty.

Investors cannot invest directly into any index.

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