BNY | INVESTMENTS

HIGHER TREASURY YIELDS MAY PRESENT OPPORTUNITIES

September 2026

Long-dated U.S. Treasury yields are in the spotlight following recent Treasury intervention. In our view, the recent rise in yields reflects underlying supply and demand dynamics, rather than concerns about U.S. solvency. Meanwhile, recent market repricing may create opportunities for active investors, especially at the front end of the curve.

U.S. Treasury yields are back in the headlines

The 30-year U.S. Treasury yield reached 5.3% in August 2026 – its highest level since 2007.

This was followed by an unscheduled August 19 Treasury announcement expanding the government's established bond buyback program.

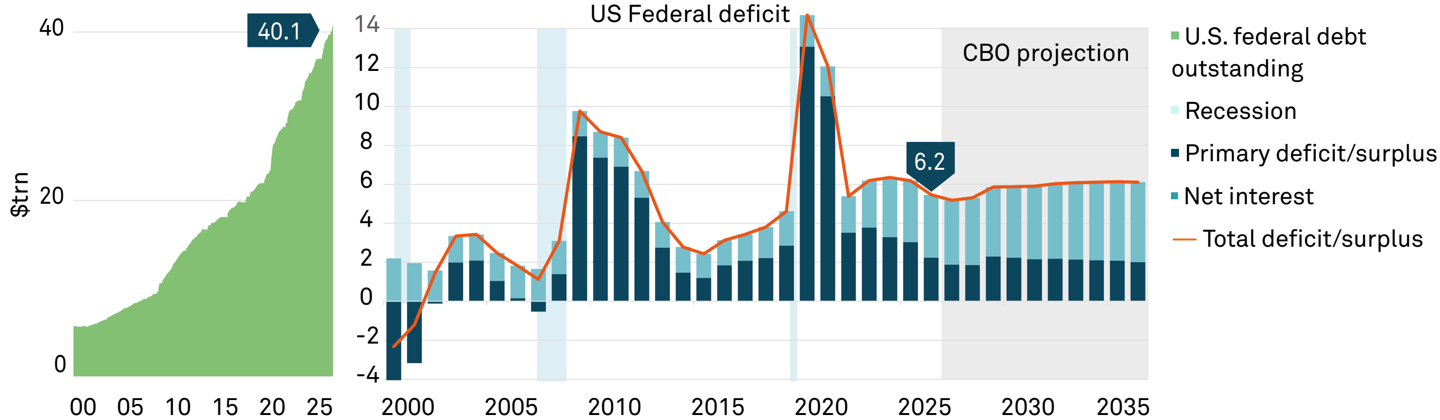
The program itself is modest, with each buyback representing less than 0.1% of the longer-dated Treasury market it is targeting.[1] However, the signal that the Treasury is willing to proactively attempt to contain long-term yields has helped renew attention on U.S. debt costs. Although headlines are focused on instability in long-term yields, we see potential opportunities in shorter maturities.

Supply, not solvency, may be driving yields higher

On August 18, the day before the Treasury's announcement, the total level of U.S. federal debt reached $40 trillion.

Its upward trajectory is set to continue. The Congressional Budget Office (CBO) estimates the annual fiscal deficit trending at ~6% of GDP for the foreseeable future.

Investors have good reason to be concerned about U.S. debt and deficits



Source: Left – U.S. Treasury, Bloomberg (PUBLDEBT Index), August 2026. August 2026. Right – Congressional Budget Office, Macrobond, February 2026. Past performance is not indicative of future results. Chart is for illustrative purposes only.

However, we do not believe markets are pricing in an impending fiscal crisis. U.S. credit default swap (CDS) spreads have narrowed through August 2026, in our view reflecting relatively healthy U.S. nominal GDP growth. Meanwhile, Treasury bond auctions have continued to function smoothly, with no evidence of foreign investor flight or stress in currency markets.

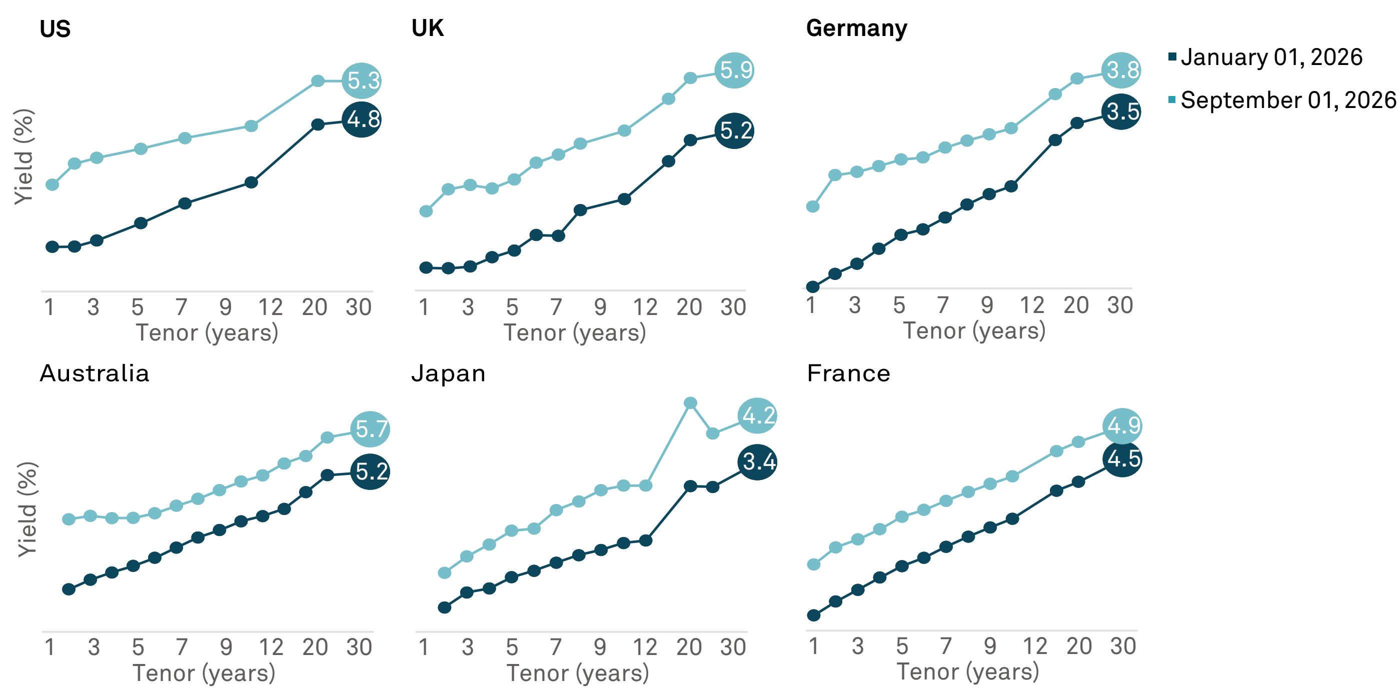
The deficit does, however, imply substantial and continuing borrowing at a time when demand may be more price-sensitive.

What is driving U.S. Treasury yields higher?

1) U.S. markets have been caught in a global trend

Rising yields this year have been a global story. Foreign yields have generally risen in step or more than they have in the U.S.

The U.S. is not alone in suffering rising long-term debt costs



Source: Bloomberg, August 2026. Past performance is not indicative of future results. Chart is for illustrative purposes only. Yields shown of generic sovereign yield series for specific tenors.

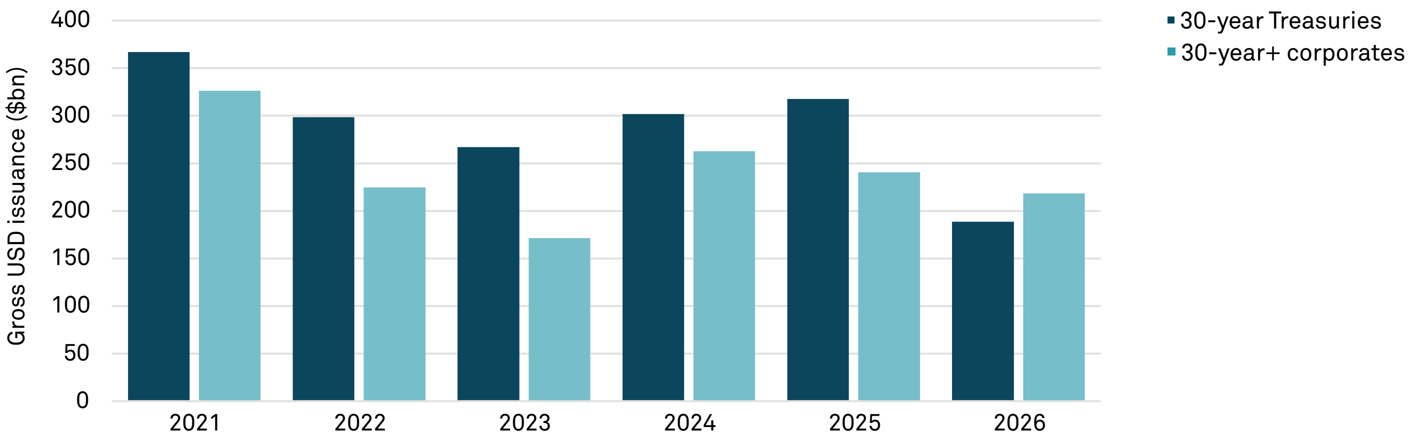
The drivers have, in some cases, been related to policy trends, including concerns around France's budget outlook and Germany's defense spending plans. In Japan, the central bank has also been normalizing interest rates. For some regions, domestic yields may have started offering an alternative to U.S. Treasuries.

2) Long-dated corporate issuance may offer an alternative to long-dated U.S. Treasuries

This year, gross U.S. dollar corporate issuance of maturities of 30 years or longer is on track to outpace 30-year Treasury issuance for the first time since the pandemic.

The largest 30-year-plus deals have been AI-related issues from Amazon, Google, Meta and Oracle.[2] This has created some potential competition for Treasuries, particularly given the first two are rated AA, the same as the U.S. government. Overall, U.S. dollar hyperscaler debt issuance has reached $157 billion in the U.S. year-to-date, versus $93 billion in 2025, potentially contributing to pressure across the curve.

Long-dated corporate issuance may have become competition for Treasuries



Source: Bloomberg, August 2026 (2026 is year-to-date to August 28, 2026). Past performance is not indicative of future results. Chart is for illustrative purposes only.

3) The new Fed regime has kept investors guessing

The Federal Reserve (Fed) is no longer expanding its balance sheet, leaving increasingly price-sensitive private investors to absorb most of the incremental Treasury bond supply.

Further, under Chair Kevin Warsh, the Fed has ceased to publish forward guidance. This may have increased uncertainty around the future path of inflation and monetary policy and resulted in investors demanding a higher "term premium" in longer-dated bonds as compensation.

Warsh has noted that rising bond yields were working to tighten financial conditions, helping the central bank to achieve price stability. Markets appeared to view this as a signal that the Fed was willing to tolerate a rise in long-dated yields.

Finding value on the curve

For all the attention long-dated Treasury yields have received, U.S. yields have risen further at shorter maturities this year, "flattening" the shape of the yield curve.

Macroeconomic developments could help reverse some of these trends in the near term.

For example, clearer evidence of easing core inflation, a less hawkish Fed trajectory, and clarity from the central bank around its balance-sheet policy could help calm investors and increase demand for Treasury bonds.

However, we expect such developments may have a larger impact on the front of the curve than the long end.

For long-dated yields to sustainably fall, it would ideally take an improvement in the U.S. fiscal trajectory (and thus a lighter bond supply calendar). At this point, there is no sign of any political will for that.

If the selloff deepens, higher yields could eventually attract renewed interest from foreign investors. For patient investors, opportunities at the long end of the curve may emerge over time.

Watching the short end of the curve

We believe that short and intermediate-dated fixed income exposure, along with "relative value" trades that aim to benefit from the U.S. yield curve returning to a steeper shape, could be worth considering in the current environment.

Ultimately, we believe higher long-term and near-term yields may enhance fixed income's broader appeal. Active investors may also find strategic and tactical opportunities through targeting value at specific points of the yield curve or through relative value trades.

ABOUT INSIGHT INVESTMENT

Insight Investment is a leading global investment manager and fixed income specialist firm within BNY Investments.

Endnotes

1. Bloomberg (Bloomberg U.S. Treasury Bond Index), August 2026
2. The mention of a specific security is not a recommendation to buy or sell such security. The specific securities identified are not representative of all the securities purchased, sold or recommended for advisory clients. It should not be assumed that an investment in the securities identified will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities listed.

Appendix

Credit spread is the difference in yield between a bond and a comparable "risk-free" government bond (typically a U.S. Treasury) of the same maturity. **Credit spread** return is the gain or loss resulting from the narrowing or widening of a bond's credit spread. **Credit default swap (CDS)** is a financial contract that offers protection against the risk of default on debt instruments. Yield curve plots the interest rates of bonds over time.

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