Coffee Break

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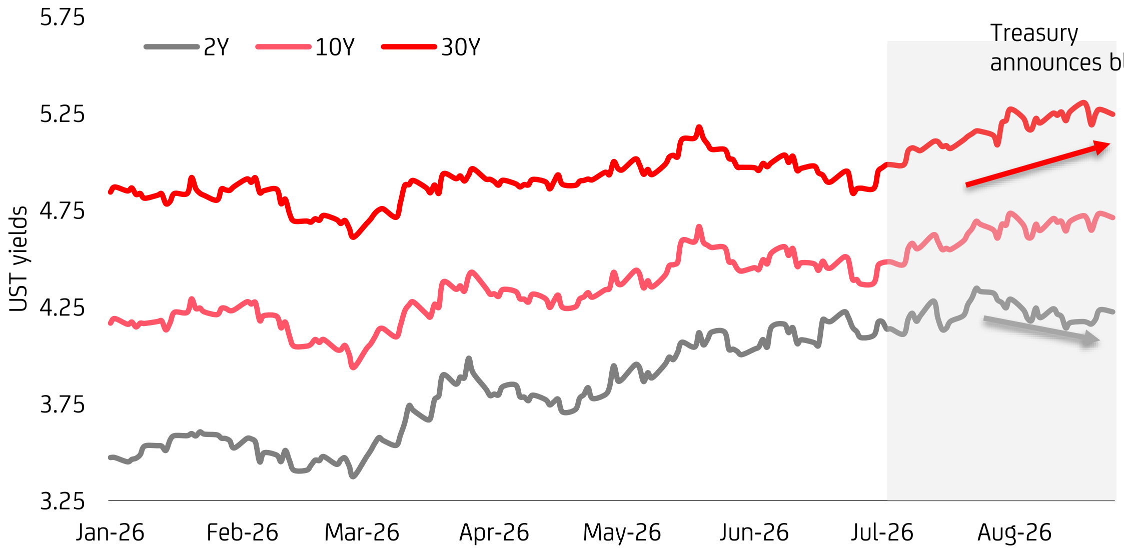
A summer twist in Treasuries

24 August 2026

2Y UST yields have fallen since late July while 30Y yields have risen, highlighting weaker investor appetite for duration. The US Treasury's announcement to boost buybacks has offered only temporary relief. A lasting decline in term premiums would likely require fiscal consolidation and a less uncertain inflation outlook, while AI-related bond remains a headwind.

THE DIVERGING PATH OF THE SHORT AND THE LONG END CARRIES AN IMPORTANT MESSAGE

UST YIELDS (%)



Source: Bloomberg, The Investment Institute by UniCredit

THE CONTEXT

This summer has been anything but boring for government bonds. Yields have been under upward pressure across the board, especially at the longer tenors. While some of the recent moves may have been amplified by the typical decline in market liquidity during August, yield dynamics over the past few weeks have provided valuable insights into investor positioning toward fixed-income assets. As we approach the final quarter of the year, we highlight the key drivers and the main challenges in government bond markets.

THE DATA

Our chart shows UST yields since early April, after the repricing triggered by the conflict in Iran. The third quarter is shaded in light grey for ease of reference. As the chart illustrates, while the 2Y yield has remained comfortably above 4%, it has trended lower since late July, declining from a peak of 4.35% on 23 July to around 4.20% currently. This move reflects both the Fed's message following its 29 July meeting and a series of August economic releases, including payrolls and CPI data, which indicated little urgency for additional rate hikes.

Despite the decline in front-end yields, the 10Y UST yield has trended broadly sideways. Even more striking has been the move at the long end, with the 30Y UST yield rising from 5.15% on 23 July to an intraday high of almost 5.35% on 18 August. Not only did this mark the highest level since 2007 but it also resulted in a pronounced twist steepening of the curve. While such steepening was partly retraced over the past week, the broad movement sticks.

Ultimately, the persistent selling pressure prompted the US Treasury to announce an increase in its buyback activity in the 10-30Y sector of the nominal curve (19 August). As buybacks need to be financed, likely with short-dated issuance, the measure effectively resembles a small-scale Treasury-led “Operation Twist”.

OUR VIEW

Price action over the past few weeks clearly points to a deterioration in investor appetite for duration, particularly at the ultra-long end of the curve. Notably, higher real yields have accounted for most of the recent move, suggesting that investors are demanding greater risk compensation for holding long-duration assets.

Several factors appear to be driving this dynamic. **First**, the Federal Reserve has become less predictable and investors have to adapt to its evolving reaction function. Reduced emphasis on forward guidance increases policy uncertainty and, over time, should contribute to a steeper yield curve. **Second**, the inflation outlook remains uncertain due to ongoing tensions in the Middle East, a fragmented geopolitical landscape as well as the potential impact of AI-related investments, which could keep price pressures elevated in the short term. **Third**, investors remain concerned about the persistent US fiscal deficit and the prospect of sustained Treasury issuance. **Fourth**, government bond markets continue to face an environment of abundant sovereign issuance globally. Japan is a case in point: the combination of expansionary fiscal policy and expectations for BoJ tightening is putting pressure on yields. **Fifth,** the supply of long-dated corporate bonds by hyperscalers and tech companies creates additional headwind, a trend that is expected to persist in the coming years. Year-to-date issuance by hyperscalers is close to USD 160bn, of which USD 135bn is denominated in USD. Hyperscalers account for almost 10% of overall US corporate bond supply. Given that little of this debt is refinancing maturing bonds, it effectively constitutes net new supply, typically concentrated at longer maturities.

Against this backdrop, the US Treasury's recent decision to increase its buyback activity has provided only temporary relief. While US Treasury Secretary Scott Bessent said that buybacks could be expanded further and that the administration has a "big toolkit" to get bond yields down, a sustained compression in term premiums would require a credible reduction in the US fiscal deficit (unlikely ahead of the mid-term elections), a less-uncertain inflation outlook and greater clarity regarding the Fed’s reaction function. Even then, competition from other issuers is likely to remain a structural headwind for the ultra-long end of the Treasury curve.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
14:00	GE	Consumer price index (% yoy)	Jan	2.6	2.6	2.6

Source: Bloomberg, The Investment Institute by UniCredit

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