

Opinion | 10 September 2026

RATES

US 10yr: Gunning for 5%. Eyes on 6%?

There is a near inevitability to the US 10yr yield breaching 5%. Higher real yields remain the biggest driver, with fiscal and wider issuance concerns dominating. But higher oil prices are a factor too, and inflation expectations are edging up again. AI productivity drivers are also present, but are being overshadowed by more sinister factors



Bond yields have risen even as Treasury Secretary Scott Bessent said the government would buy back \$6 billion of long-dated debt

The US Treasury can do no more than richen Treasuries versus SOFR

These are worrying times for bond markets, and by extension also for the wider risk asset space. Corporate America is discounted in a very positive fashion currently, and rightly so given the stellar earnings reports of recent quarters. But persistent elevation in real rates is a stress that is tough to diversify away from, especially for borrowers that face refinancing needs. The market remains very receptive to corporate supply, and investors are now getting more reward for absorbing it due to the higher yields. In the big scheme of things, there is a relative calm in corporate credit spreads (wider, but no dramatics). But there is a tipping point where some of the beta pressures act to darken the atmosphere in a more material fashion.

Hitting 5% on the 10yr Treasury yield looks more like an inevitability here than a forecast. A

silver lining is we've been here relatively recently (2023), and a 5% 10yr Treasury yield is no more than a 50bp concession to the top of what we consider a neutral range for the 10yr yield (4% to 4.5%). Such a concession is not aggressive given the current 3+% inflation and 6% of GDP fiscal environment. Could things get even more sinister? Yes, where a break above 5% on the 10yr yield does nothing more than bring 6% into focus. Such a journey (from 5% to 6%) would be a far tougher one for the wider market to stomach. We're not calling for it. But we're also not not calling for it.

Treasury Secretary Scott Bessent is in the market and keen to calm things through increased long-end buybacks. But in the end, this policy can do no more than richen the 10yr Treasury yield versus the 10yr SOFR rate. That 10yr SOFR rate is now above 4.5%. Yes, there is a relationship to the 10yr Treasury yield through a relative value prism. But in the end, the 10yr SOFR rate reflects the market's discounted path for the Fed funds rate. Long-end Treasury buybacks alone can't impact that path, regardless of whether the opportunity for a big-bang statement about a quintupling of buybacks has already passed.

Pressures build right along the curve

The US 10yr yield is now above 4.9%. Breaking this out, the real yield is at 2.5%, and the breakeven inflation rate is at 2.4%. Both are up in the past few days.

The rise in the real yield remains the central driver, but inflation expectations have been making a contribution too of late. Even though a notable up-move occurred as Thursday's PPI data and jobless claims were released, the move had little to do with the data, apart from the reality that the data reminded us that claims remain historically low (not new) and PPI inflation is running at 5.4% (new, but broadly as anticipated). The data release was nothing more than an excuse to rock on higher in yield, and right across the curve.

The 2yr carry spread (spread to the funds rate) is now approaching 90bp. That's comfortably above the 75bp level that typically heralds a rate hike, or hikes. The 5yr has decompressed its prior richness on the 2/5/10yr fly to practically zero (had been rich). Long end SOFR rates are now trading as if the Fed is about to deliver two to three rate hikes. The price of oil has touched \$100/bbl for West Texas (Brent was there already). And President Trump is promising a large unaffordable payout should the US mid-term elections turn his way. While unlikely to occur, it's hardly what the back end of the curve wants to hear in this current environment.

Then Wednesday's tripling of long-end buybacks, instead of calming the back end, in fact prompted an increase in rates, not just in the 30yr yield, but, intriguingly, a practically equal increase in the 30yr SOFR rate. That in itself was telling. What should have been a bond-positive prompt, in fact, turned into an implied rise in the market discount for hikes, as shown in higher long-end SOFR rates, which effectively represent the market's discounted expectation of future floating SOFR over the relevant horizon.

It seems from here that the pressures on long-end rates continue to build until action is taken (hike(s) and/or fiscal discipline), or until something breaks. If the rise in long-end rates was purely down to higher AI productivity-driven real rates, there would be no rationale for a negative feedback loop to risk assets. But to the extent that it's reflective of wider issuance pressure (including anticipated issuance) and revived inflation worries, there is more to be concerned with.

The last time we hit 6% on the US 10yr yield was in 2000, when the 10yr real yield got to 4%. We've been there before, so it does not *have* to be catastrophic. But throw in the poor debt dynamics, and it could be (if it happens, of course). This can all be tamed by cooling inflation (we call for that) and a subsequent build in the discount for a rate cut (we expect that in 2027). But for now, we're running a dangerous gauntlet, making the rest of 2026 potentially quite tough.

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