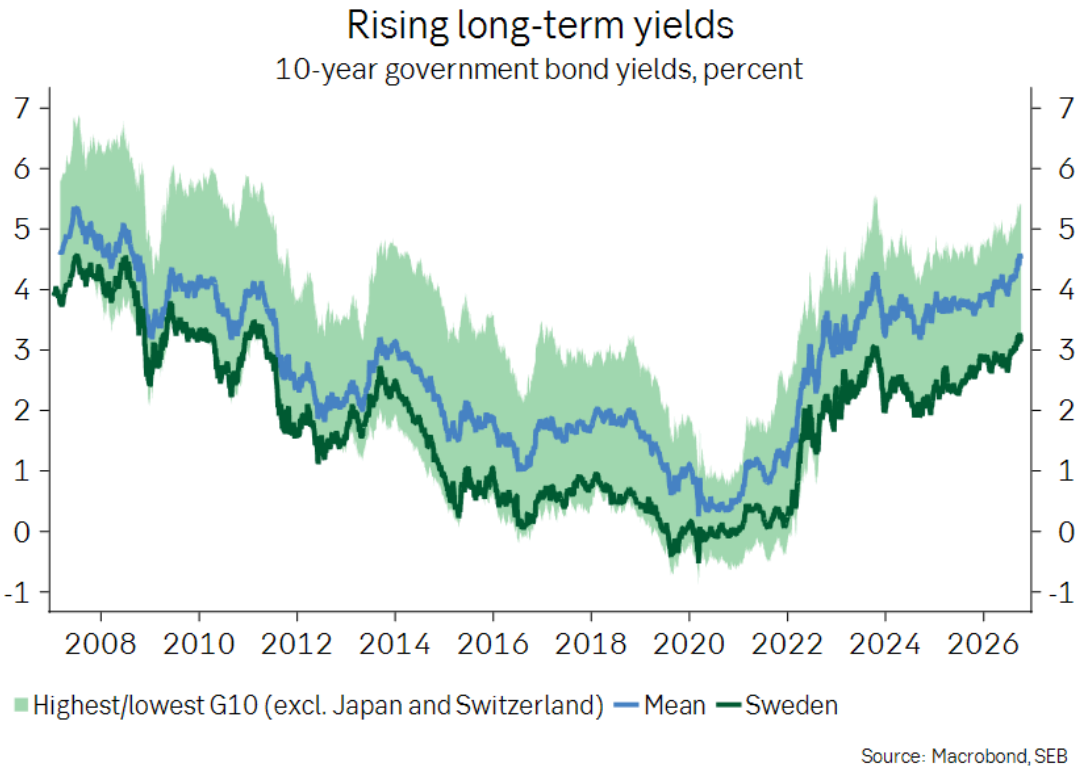
07 October 2026

Why are long-term yields rising?

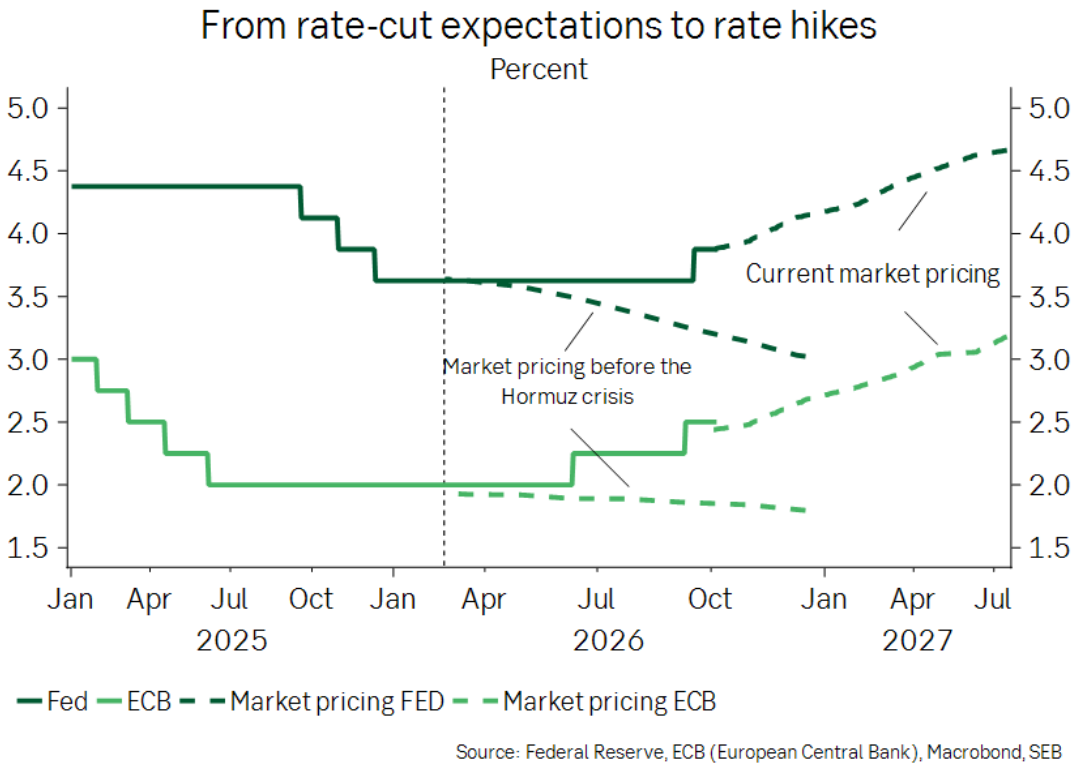
Long-term yields have risen sharply and are at their highest levels in several decades in many major economies. The energy shock and higher expectations for policy rates are an important part of the explanation, but the rise also reflects more structural changes: larger government borrowing needs, higher risk premia, strong private-sector demand for capital and reduced demand from major bond buyers. Much suggests that yield levels similar to those we see today will persist, and that the low-rate years should rather be viewed as a historical anomaly.

The 10-year government bond yields are now at their highest levels in a long time: in Sweden since 2011, in Germany since 2009, in the US since 2002 and in Japan since 1996. The drivers of interest rates are often divided into several components, for example expected real short-term rates + expected inflation + term premium + risk premium. This is a useful framework for fundamental analysis, but ultimately long-term yields are determined in the same way as other financial assets – by supply and demand.



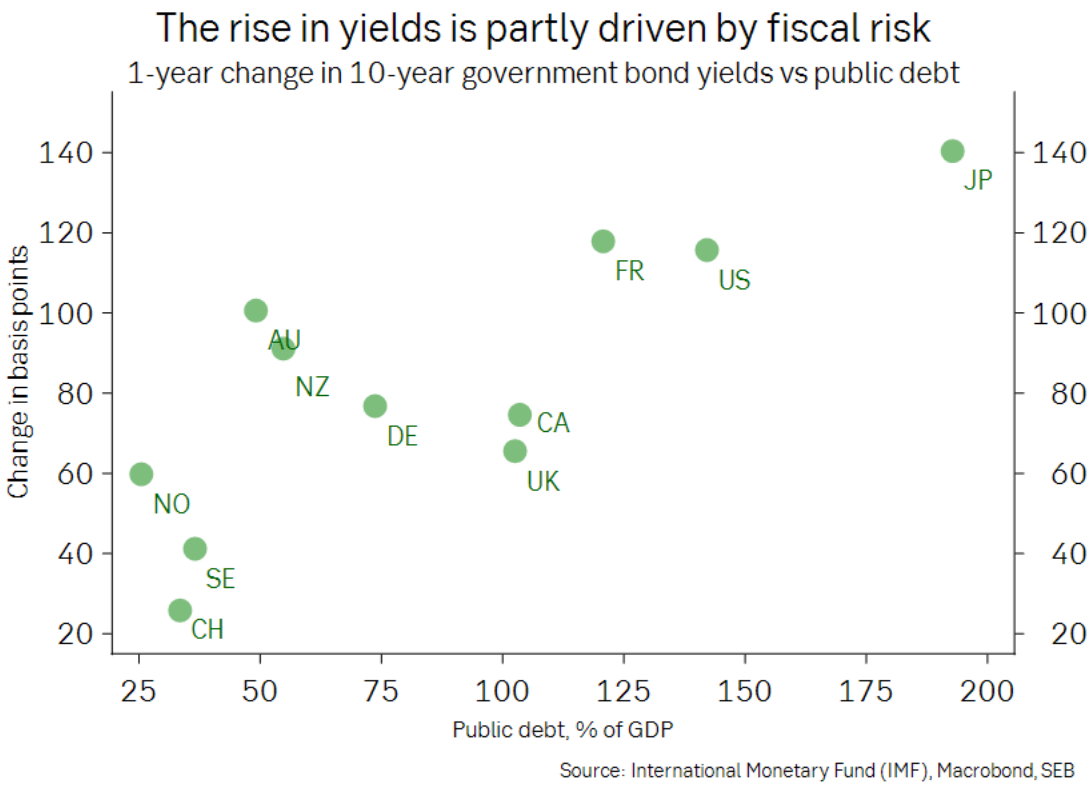
Rising short-rate expectations are driven by inflation concerns and resilient growth. The war in the Middle East has pushed energy prices higher and once again put inflation at the centre of attention. Central banks normally look through volatile energy prices, but the longer prices remain elevated, the greater the risk of spillovers into other and broader areas, such as goods prices, wages and inflation expectations. At present there are no clear signs of an end to the conflict with Iran, and central banks' patience has started to wear thin.

Among others, the ECB, Bank of Japan and Federal Reserve have already raised their policy rates, while others are still waiting for more data. A clear shift has taken place, with markets moving from pricing rate cuts to instead pricing several hikes. At the same time, global growth, and US growth in particular, has proved more resilient than expected, making it easier for central banks to raise rates. When central banks' policy-rate paths change, the view of the average interest rate over a longer period also changes, which naturally pushes long-term yields higher.



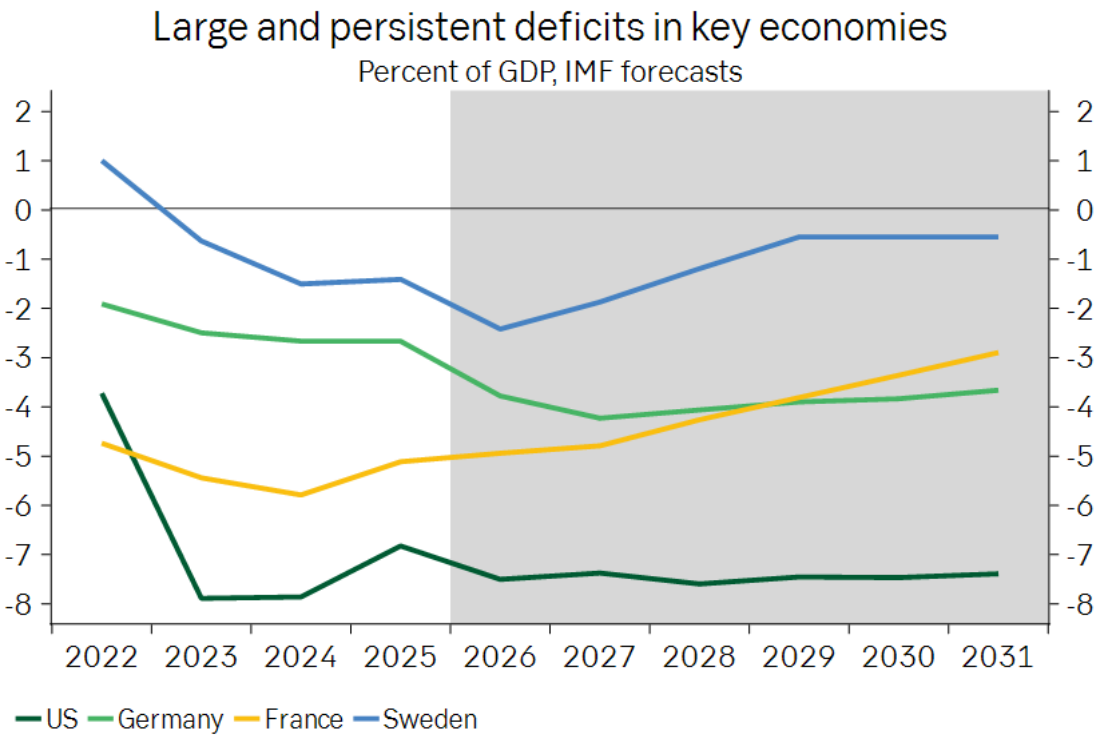
Source: Federal Reserve, ECB (European Central Bank), Macrobond, SEB

But the fiscal risk premium has also risen. The problem many countries now face is that a large share of existing debt will need to be refinanced in the coming years. This is done by issuing new debt at prevailing market yields, which are currently far above the low rates that prevailed when a large share of today's debt was issued. Combined with debt levels above 100 per cent of GDP, several countries risk ending up in a situation where ongoing interest costs become so high that it is difficult to escape — a classic debt trap. It remains to be seen what the long-term solution will look like this time.



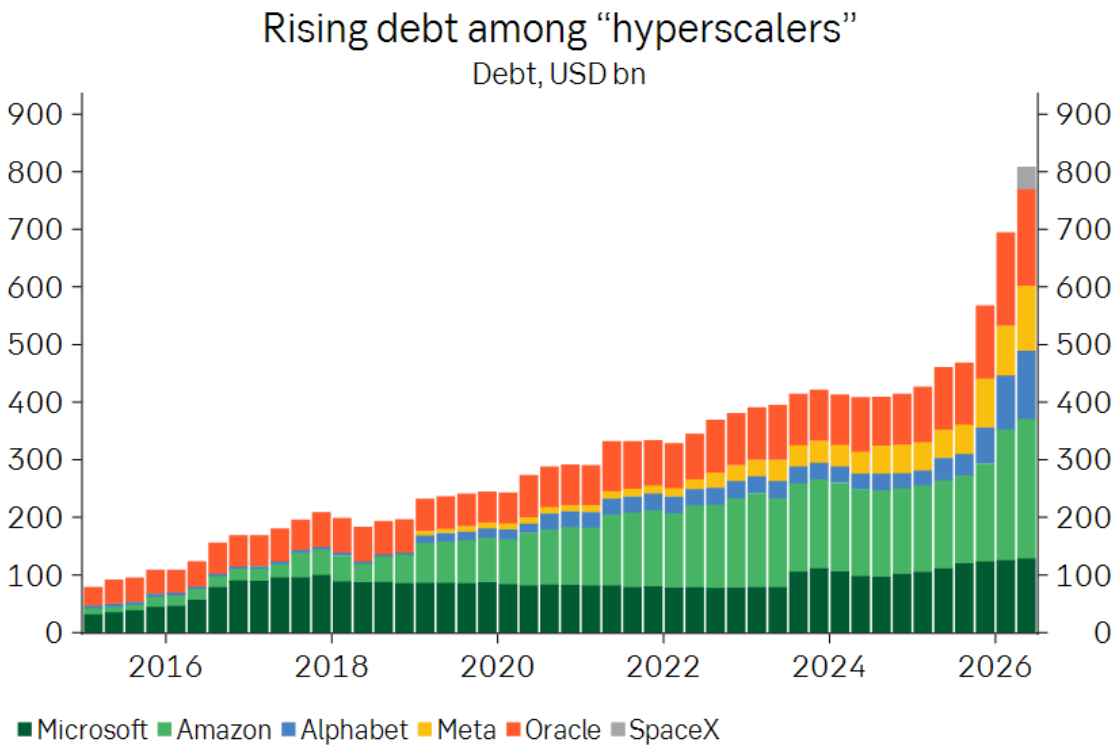
In many major economies, fiscal policy is expected to remain expansionary despite already high debt levels, in order to meet the economic challenges of the new global environment: increased defence investment, infrastructure spending and the green transition. At the same time, political willingness to carry out the necessary fiscal consolidation is, to put it mildly, limited. At the end of the day, it is simply easier to campaign on promises of increased spending than on spending cuts.

For investors, this means that lending to governments has become riskier. The value of their holdings risks being eroded by rising inflation, driven for example by expansionary fiscal policy, but also by falling bond prices as the private market has to absorb larger volumes of government bonds. The natural response is therefore to demand a higher risk premium for lending to these economies, which contributes to pushing long-term yields higher.



Source: International Monetary Fund (IMF), Macrobond, SEB

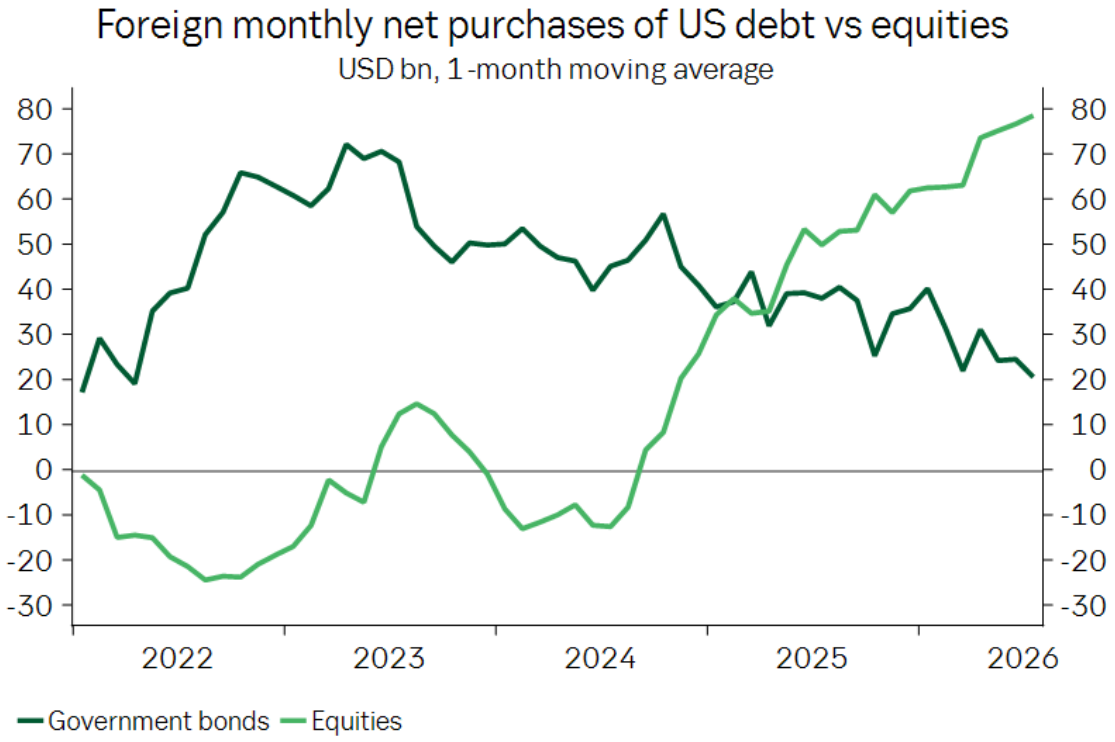
The government also competes with the private sector for capital. AI investment is the clearest example. The expansion of data centres, power generation and semiconductor plants requires large amounts of capital that companies need to attract from investors. Debt among the so-called hyperscalers now amounts to around USD 800bn, roughly eight times as much as Sweden issued in government bonds during 2025.



Source: Macrobond, SEB

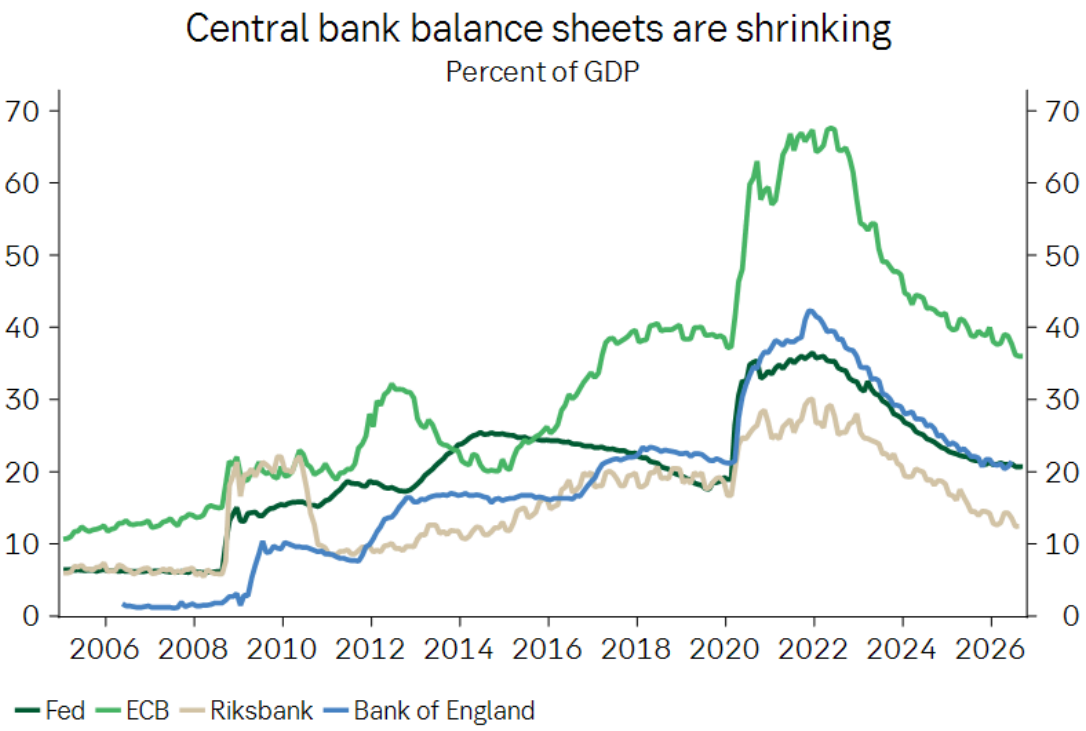
Capital inflows into the equity market have also increased. When growth is strong, corporate earnings are rising and investors see high potential returns, the opportunity cost of holding long-duration bonds rises. At the same time, technical and regulatory simplifications in equity markets have opened the way for increased equity exposure among both pension capital and private investors.

Capital that previously flowed into government bonds is increasingly being allocated to equities and corporate bonds. For the government bond market to attract enough buyers, yields therefore need to rise. Eventually, higher yields may also weigh on equities, but as long as earnings growth among listed companies remains strong, equity prices and long-term yields can remain elevated at the same time.



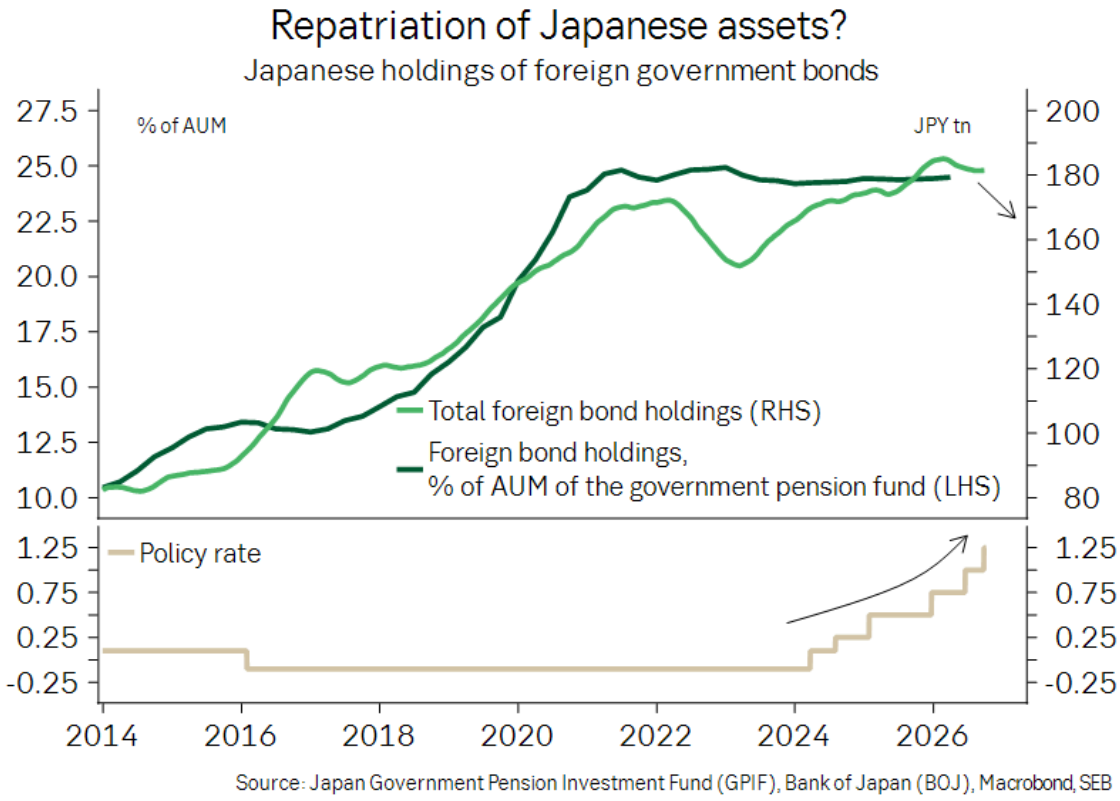
Source: U.S. Department of Treasury, Macrobond, SEB

Previous major buyers have also withdrawn from the market. During the 2010s and early 2020s, central banks bought large volumes of government bonds under QE programmes. This was done both to raise inflation and to support the economy during the Covid pandemic. That process has reversed, and most central banks are now allowing bond holdings to mature or are even actively selling bonds in the market. A bond that previously ended up on a central bank balance sheet must now increasingly be bought and held by pension funds, banks or households — more price-sensitive investors that require higher yields as compensation for risk and duration



Source: Macrobond, SEB

Japanese asset managers and households have also for a long time invested large amounts of capital in foreign bonds, helping to keep yields down in the US and Europe. Now that Japanese yields are rising, it is becoming more attractive to keep capital at home. There is also discussion of keeping capital in Japan in order to support the domestic economy more broadly, and together this has fueled speculation about large future capital flows back to Japan. For the rest of the world, this means that another major bond buyer risks disappearing, putting further upward pressure on long-term yields.



Overall, there are currently many factors putting upward pressure on interest rates. The energy shock, together with fears of higher inflation and higher central-bank policy rates, is the most obvious. An end to the war could eventually give central banks room to lower policy rates. We are not there yet, and even when that happens, it will probably not be enough to bring long-term yields back down to the levels seen a few years ago.

Fiscal risk and expansionary budgets will shape the development for many years. Private-sector demand for capital and the high equity exposure among households and investors are also likely to persist. The experience of the quantitative easing era does not point towards a return to QE either; rather, many appear doubtful that the benefits of these operations exceeded the costs. Finally, if Japanese capital flows genuinely start moving back towards the domestic economy, this could contribute to further increases in yields elsewhere. The low-rate years should therefore rather be regarded as a historical anomaly.

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