

Market update: Bond moves

21 September 2026

Global bond yields rising

Resurging inflation triggering expected monetary policy tightening, but broader market contagion contained

The re-escalation of military action in the Middle East has pushed global government bond yields to multi-decade highs as inflation risks resurface. We have prepared this note to help investors interpret the drivers behind the move, distinguish a repricing of inflation and supply risk from genuine market stress and consider the implications for portfolio positioning.

Oil prices have risen back above US\$100/b as gulf production remains constrained and shipping routes blocked. This has fuelled fears of higher and more prolonged energy-driven inflation, amplifying risks of spill over into measures of core inflation. Added to this, growing risks of a super El Nino weather event have increased concerns about rising food inflation.

Resurging inflation forces, combined with resilient economic momentum, caused a repricing of central bank expectations towards more aggressive tightening cycles. The Federal Reserve hiked the fed funds rate at its September meeting, in the first hike in over three years. Many other major central banks have already hiked rates and have additional hikes priced into futures markets. This has also lifted short-term interest rates, increasing the attraction of returns from cash and lower duration, lower-risk assets.

Meanwhile, government bond supply remains elevated, as governments continue to run large fiscal deficits, adding to borrowing requirements. Rising interest rates increase the servicing costs of the debt. US government debt clocked past US\$40 trillion in August.

Further, the large corporate borrowing requirements, in particular from the AI hyperscalers, is competing for capital alongside sovereign issuance, potentially pushing government bond yields higher. Japanese government bond yields are the highest since the 1990s, which could be reducing the attractiveness of overseas bonds to Japanese investors, plus reducing holding requirements.

As a result, prices of government bonds have fallen pushing bond yields higher.

The bond term premium increased from negative levels a few years ago while the recent increase has been a broad shift up in the yield curve.

In a long-term context, the current moderate positive duration yield premium does not appear particularly high or suggest stressed capital markets. Longer dated, 30-year bond yields have risen but the relative yield differential with 10-year bonds has fallen over the past year and is around the long-term historical median level.

The US Treasury has stepped in to buy small amounts of longer-dated debt in an effort to contain bond yields at the longer-end of the curve, but volumes are small in the context of the overall market.

Higher bond yields raise the discount rate used to value future cash flows. Long-duration growth assets, infrastructure, unlisted property, private equity are sensitive to these moves. AI technology companies are viewed as long duration as much of the valuation comes from earnings growth in the future. In credit markets, higher bond yields make borrowing costs/refinancing costs more expensive, at a time with growing AI disruption uncertainty.

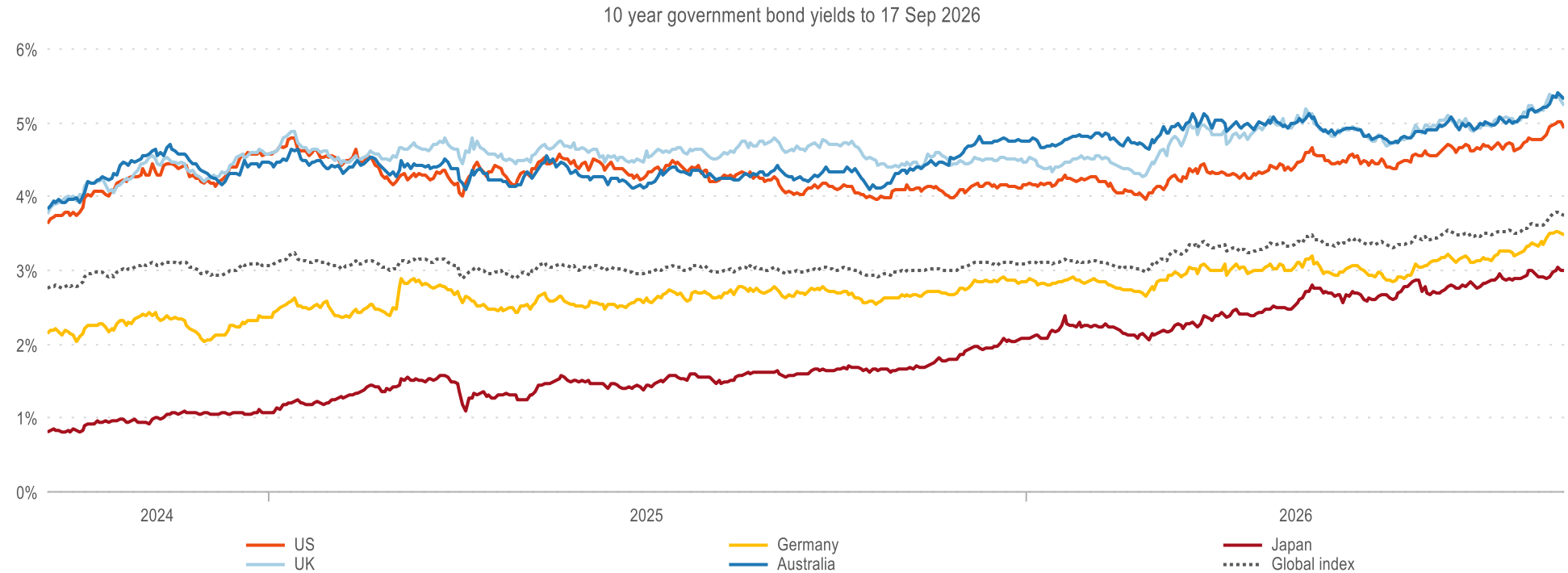
So far, contagion of government bond yields into other asset classes has been contained, with equities mostly gaining. Frontier's Annual Secular Outlook highlighted the likelihood of major economies remaining in a higher inflationary regime over the next several years, until the anticipated productivity gains of AI are felt at the broader macro level, reinforcing the need to assess portfolio inflation resilience.

Inflation-linked bonds are offering attractive real yields, being at multi decade highs, providing solid inflation risk protection yields. Elevated government bond yields are offering attractive carry. The Fed hiking rates has in-part alleviated concerns of uncontrolled inflation, moderating some of the pressures on long-term bond yields.

Given the tightening of financial conditions, it will be important to monitor markets and the macroeconomy for signs of stress across household and business sectors, such as downwards earnings revisions, rising unemployment, collapsing forward orders.

Global government bonds

Rising government bond yields capturing attention of global markets



- Major economies are experiencing rising government bond yields as inflation risks increase and debt sustainability concerns resurface.
- The US 10-year government bond yield has gone above 5%, the highest level since 2007, others are around multi-decade highs, the Australian yield is nearing 5.5%, similar in the UK, Germany around 3.5%.
- Japanese 10-year government bond yields are at 3% the highest yield since the mid-1990s.

Bond yield movements

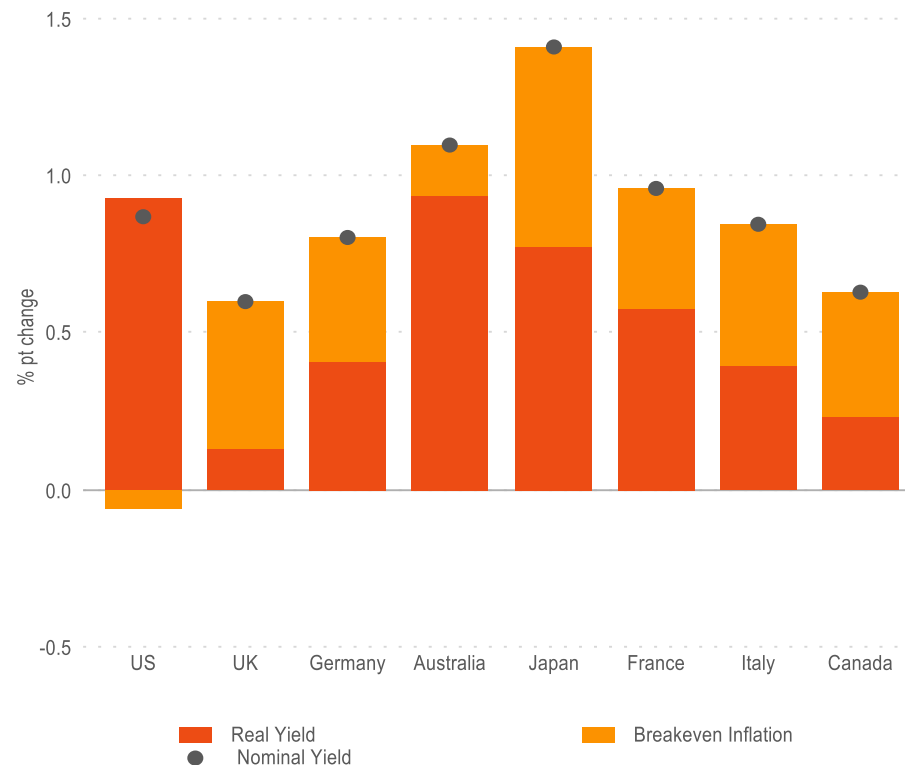
Recent yield changes are part of a broader bond yield movement over the past year

Breakdown of 3-Month Change in 10 Year Bond Yields at 17 Sep 26



Source: LSEG Datastream

Breakdown of 1-Year Change in 10 Year Bond Yields at 17 Sep 26

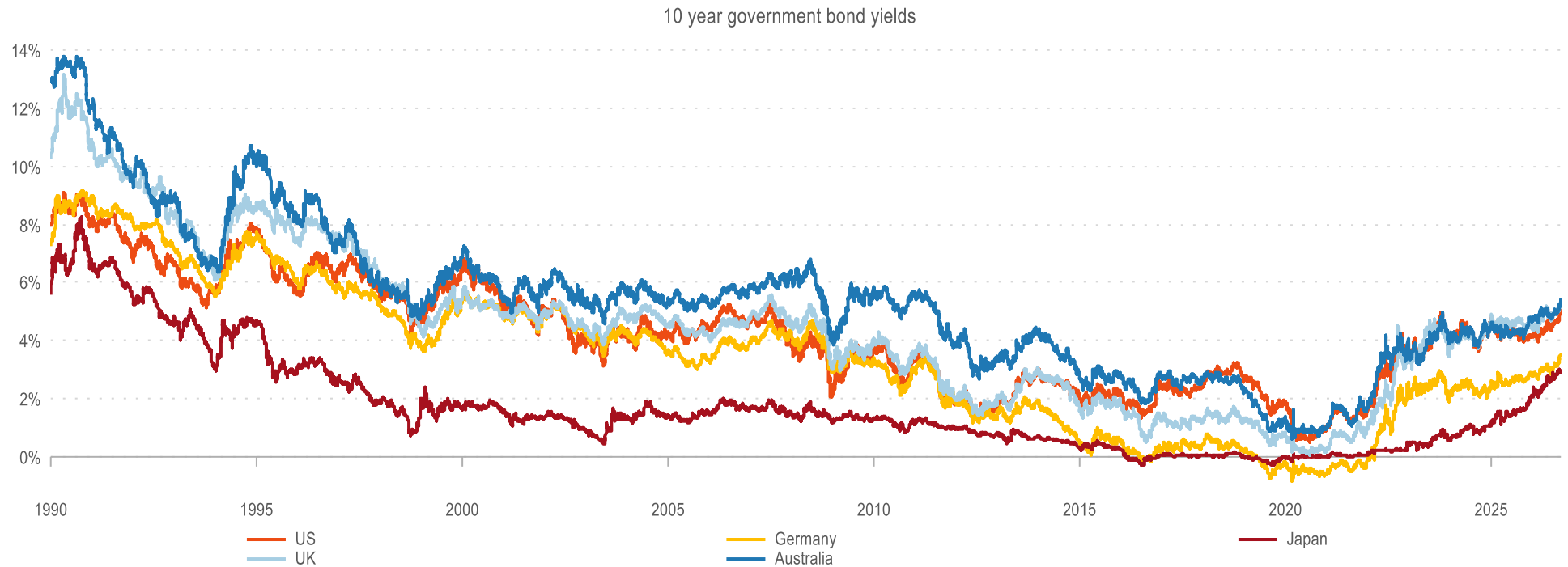


Source: LSEG Datastream

- Bond yields have risen notably over the past three months and over the past year, with real yields lifting as breakeven inflation rates have also moved higher in many regions. US breakeven inflation is broadly unchanged but is broadly around the same level as Australia and has been around this rate since late 2024.
- In Europe, investors are seeking greater risk premium in French government debt with elevated uncertainty ahead of the Presidential elections, and French yields are now similar to Italian debt.

Longer-term yield perspective

Government bond yields at multi-decade highs after historic low yield period

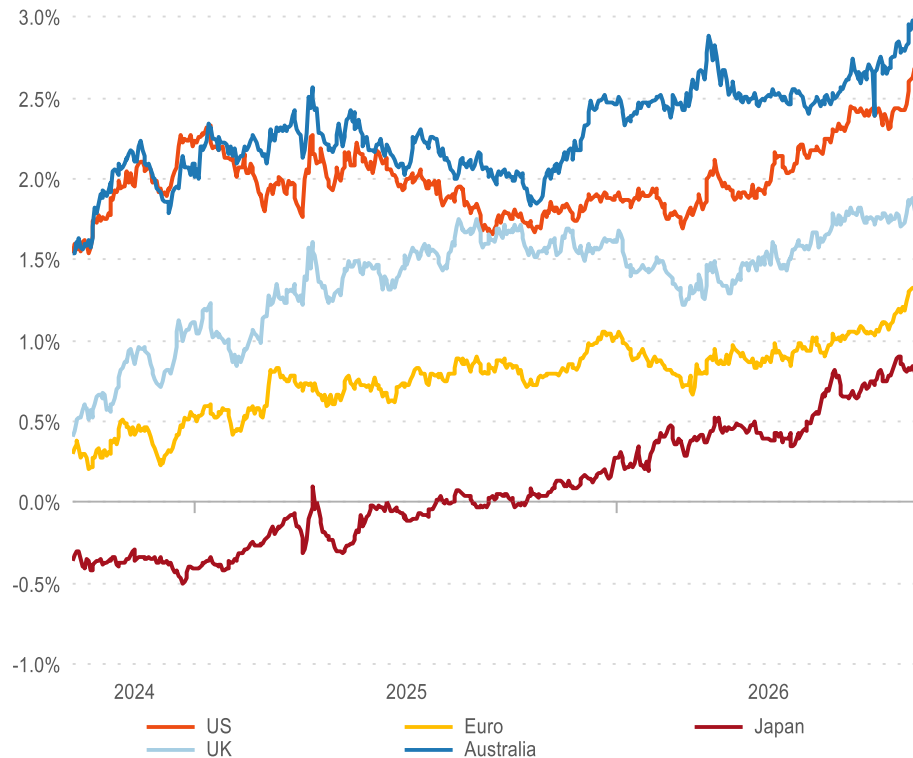


- Extending the chart shows bond yields are high relative to recent history, but not on a longer-term time frame.
- Recent decades post the 2007 GFC and then the 2020 COVID-19 shock has been an extraordinary period of extremely low bond yields.
- In a long-term perspective bond yields around 5% appear more normal.

Yield change

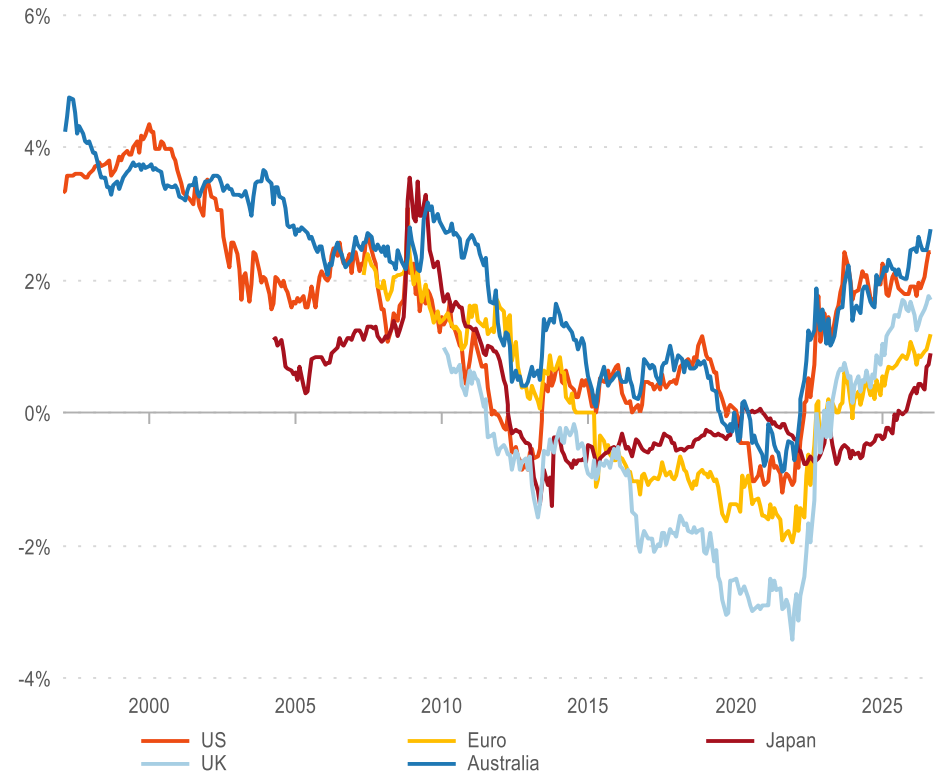
Solid real yields provided inflation protected returns

Inflation linked government 10 yr bond real yields to 18 Sep 2026



Source: LSEG Datastream

Government inflation linked 10 yr bond yield

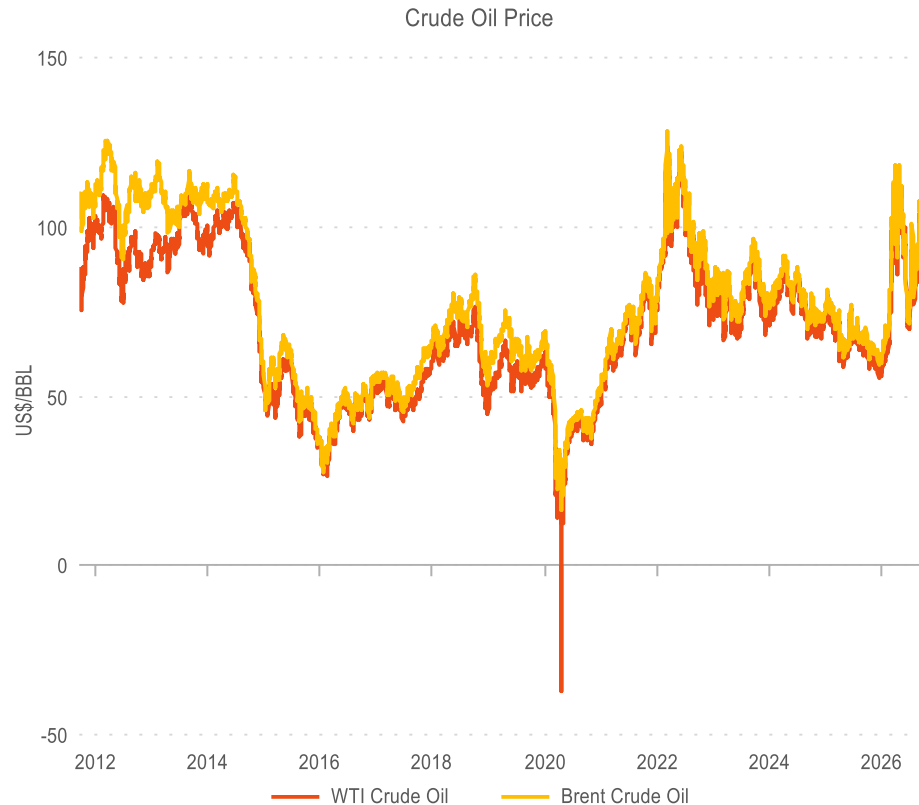


Source: LSEG Datastream

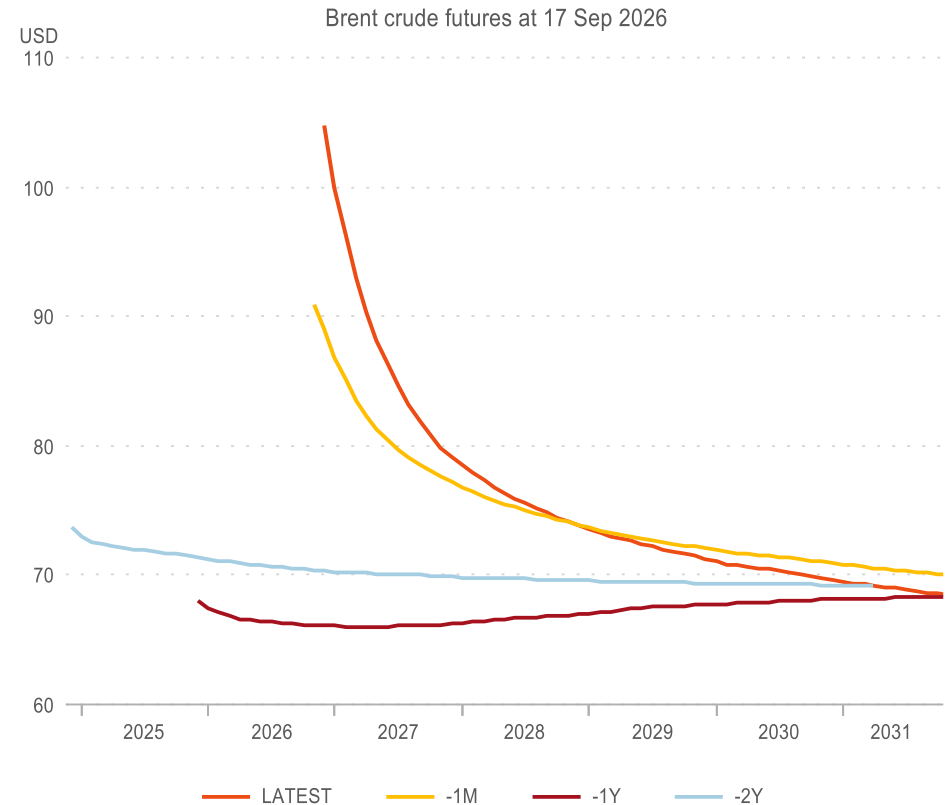
- Australian inflation-linked bonds are at solid real yields, around 3%.
- US inflation-linked real bond yields are lower than Australia, but now above 2.5% provide a solid, inflation risk protection yield.

Oil prices

Breakdown of peace deal and renewed conflict has oil prices above US\$100/b



Source: LSEG Datastream



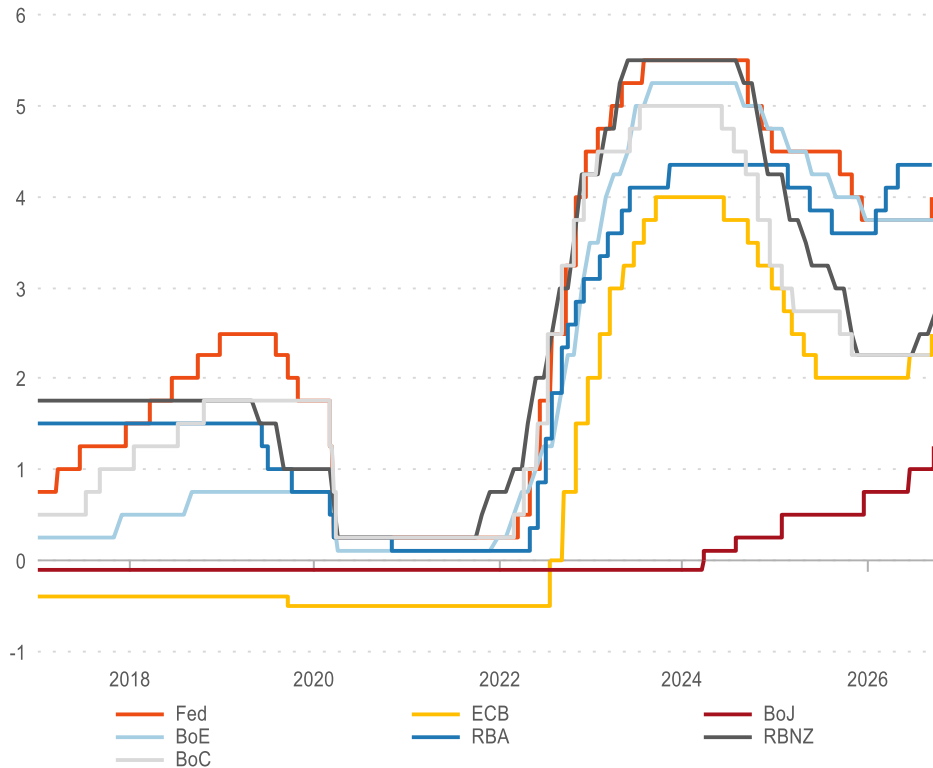
Source: LSEG Datastream, ICE

- Oil supply is restricted as gulf production and supply is constrained. Shipping volumes through the Strait of Hormuz remain severely depressed. High oil prices are being translated into higher inflation expectations, and weather conditions are adding to inflation risks.
- Futures markets are pricing material fall in oil prices, which will put downwards pressure on inflation, but also suggests oil prices will remain higher for longer.

Central bank expectations

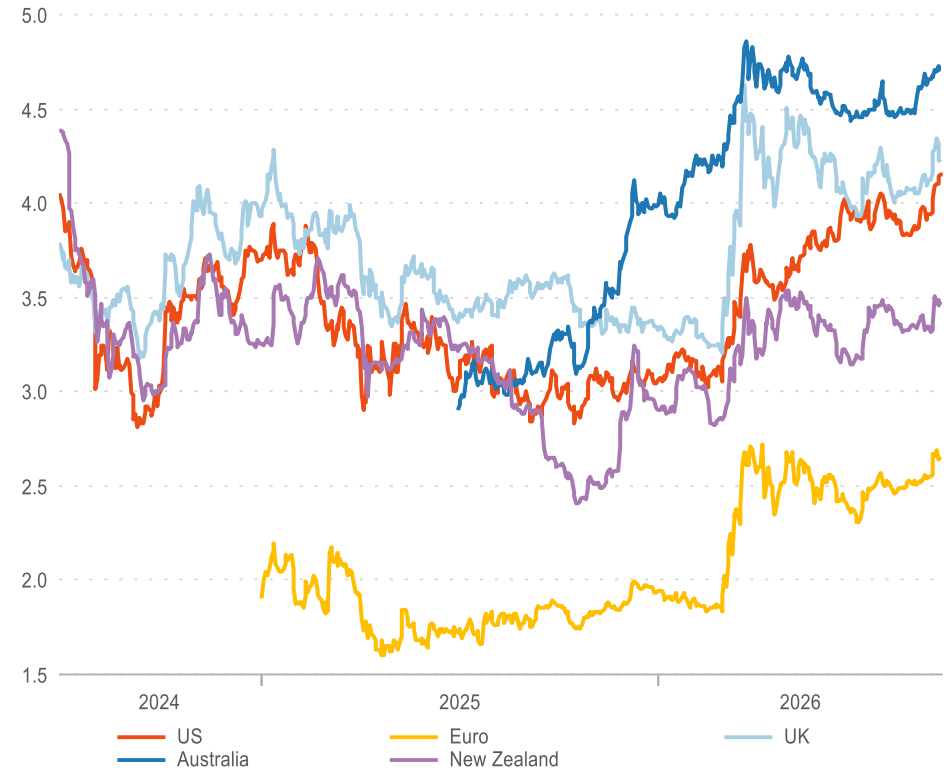
Higher inflation risks and resilient economic activity seeing central banks hiking rates

Central bank policy rates



Source: LSEG Datastream

Futures Dec 2026 interest rate as at 18 Sep 2026



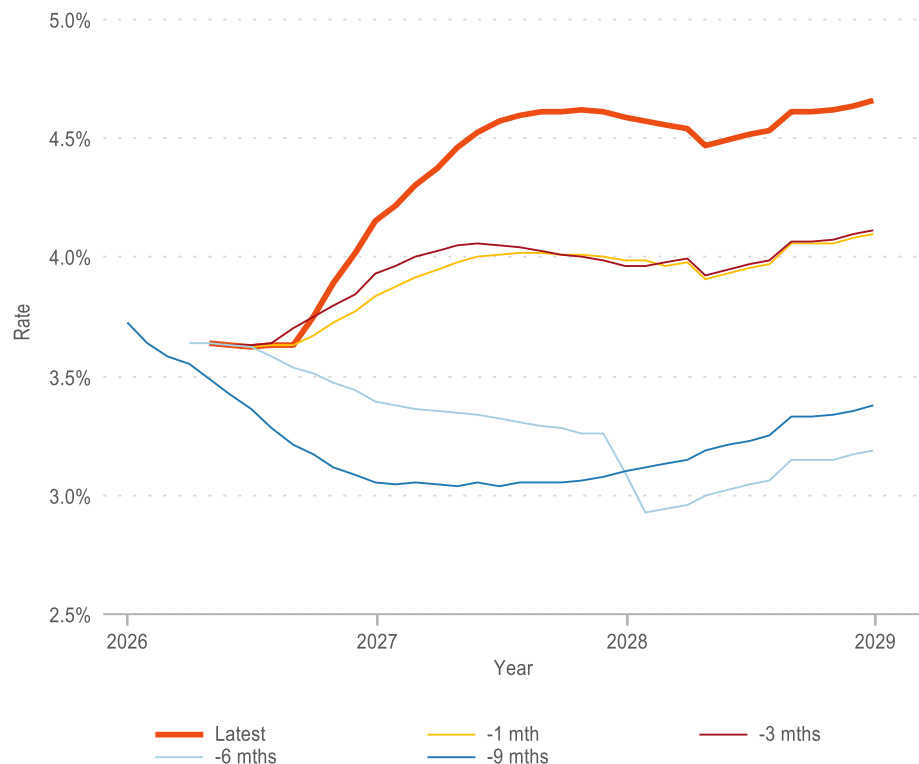
Source: LSEG Datastream

- The Fed, ECB, BOJ and RBNZ are among the central banks that have lifted interest rates this month on renewed inflation risks.
- Additional rate hikes are expected ahead. The RBA is expected to lift rates at the end of September.

Further hikes priced

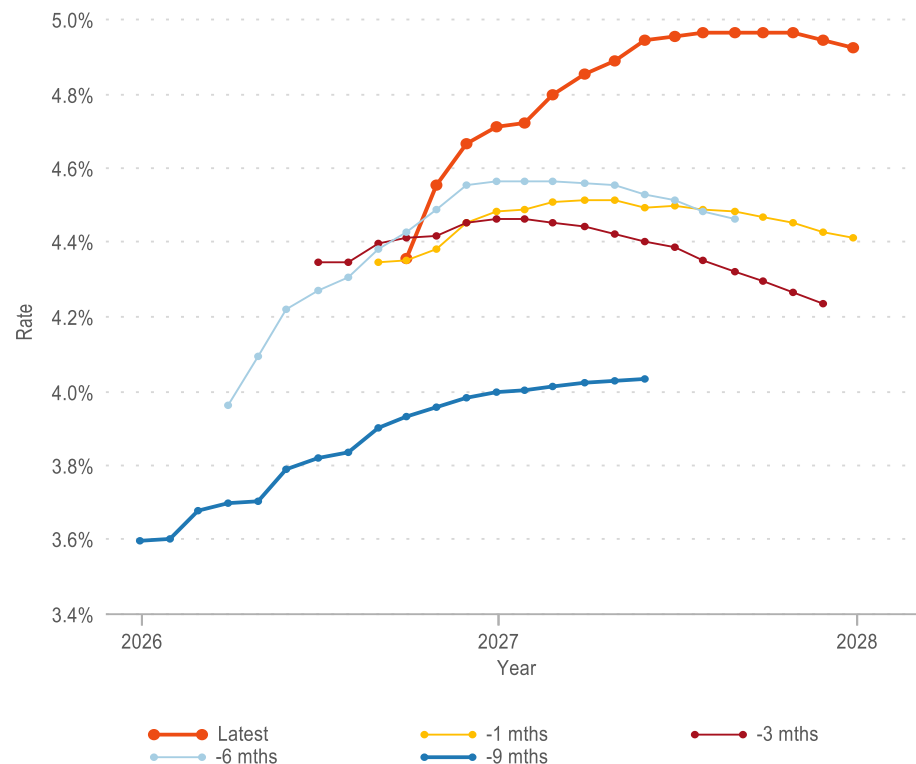
Futures pricing suggests multiple rate hikes to be delivered

US Fed Funds rate futures curve at 18 Sep 2026



Source: LSEG Datastream

RBA futures curve (% p.a.) at 18 Sep 2026



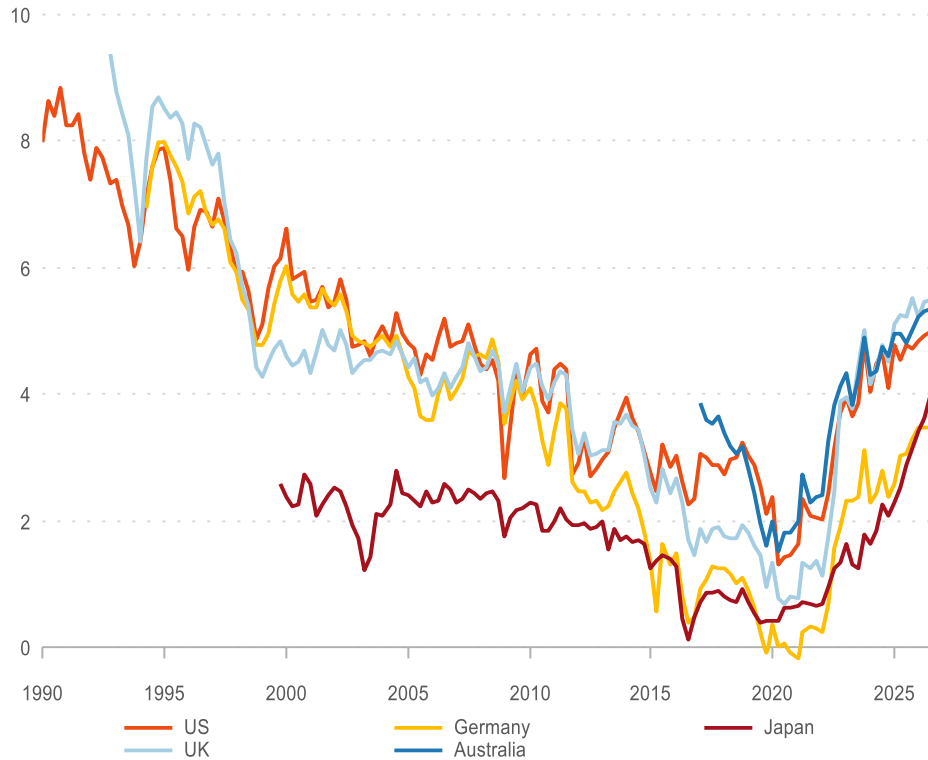
Source: LSEG Datastream

- With inflation risks elevated, futures pricing suggesting nearly three more Fed hikes will be delivered, and at least two more RBA hikes.
- This tightening of financial conditions moves monetary policy to a more restrictive setting.

Longer-dated debt

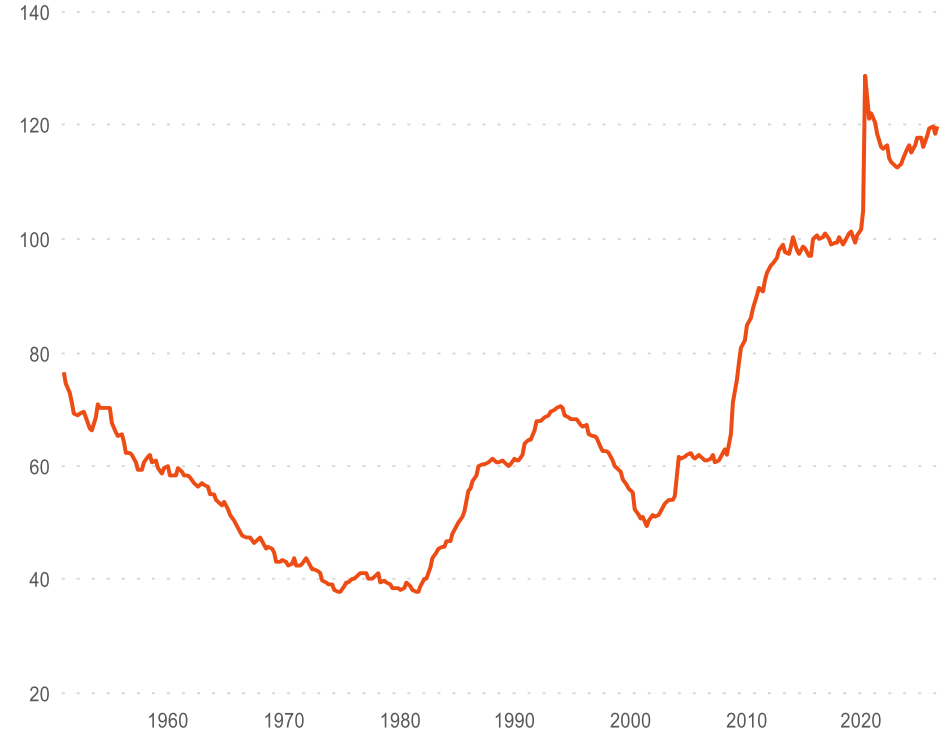
Yields higher across the yield curve

30yr bond yields



Source: LSEG Datastream

US total government debt
Per cent of GDP



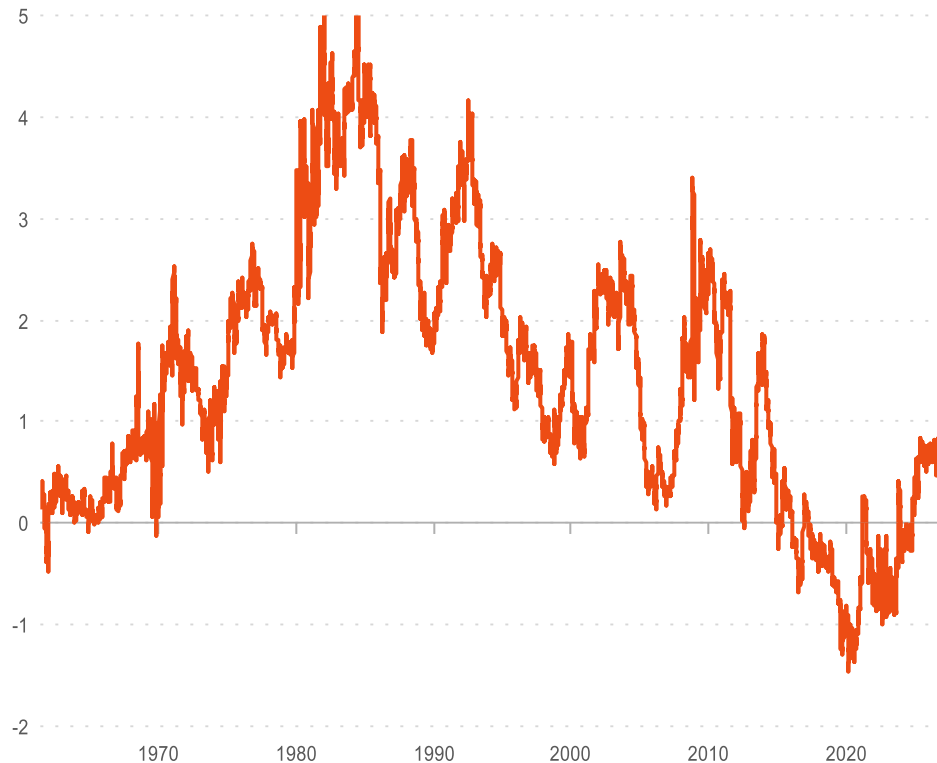
Source: LSEG Datastream

- Large fiscal deficits across many developed markets. US government debt clocked past US\$40 trillion. Rising bond yields increase debt servicing costs.
- US Treasury has bought back longer-dated debt in recent weeks in attempt to keep yields contained in less liquid parts of the yield curve.

Term premium

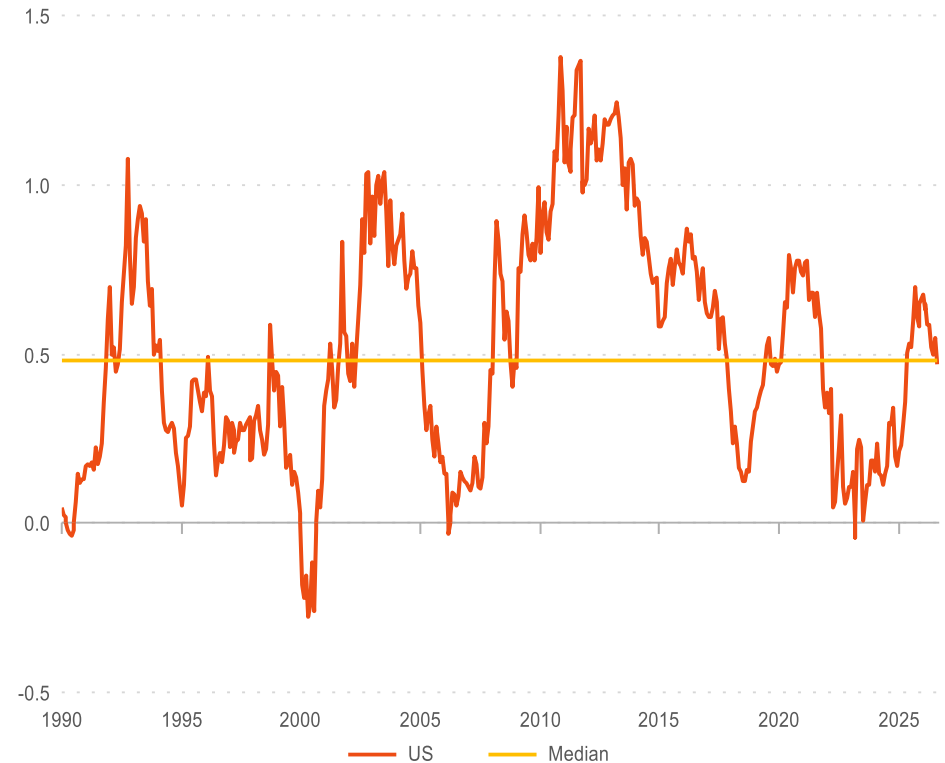
Remaining contained, not indicating stress

US 10-year treasury term premium estimate (% p.a.)



Source: LSEG Datastream

US bond 30yr minus 10yr yield premium to Sep 2026

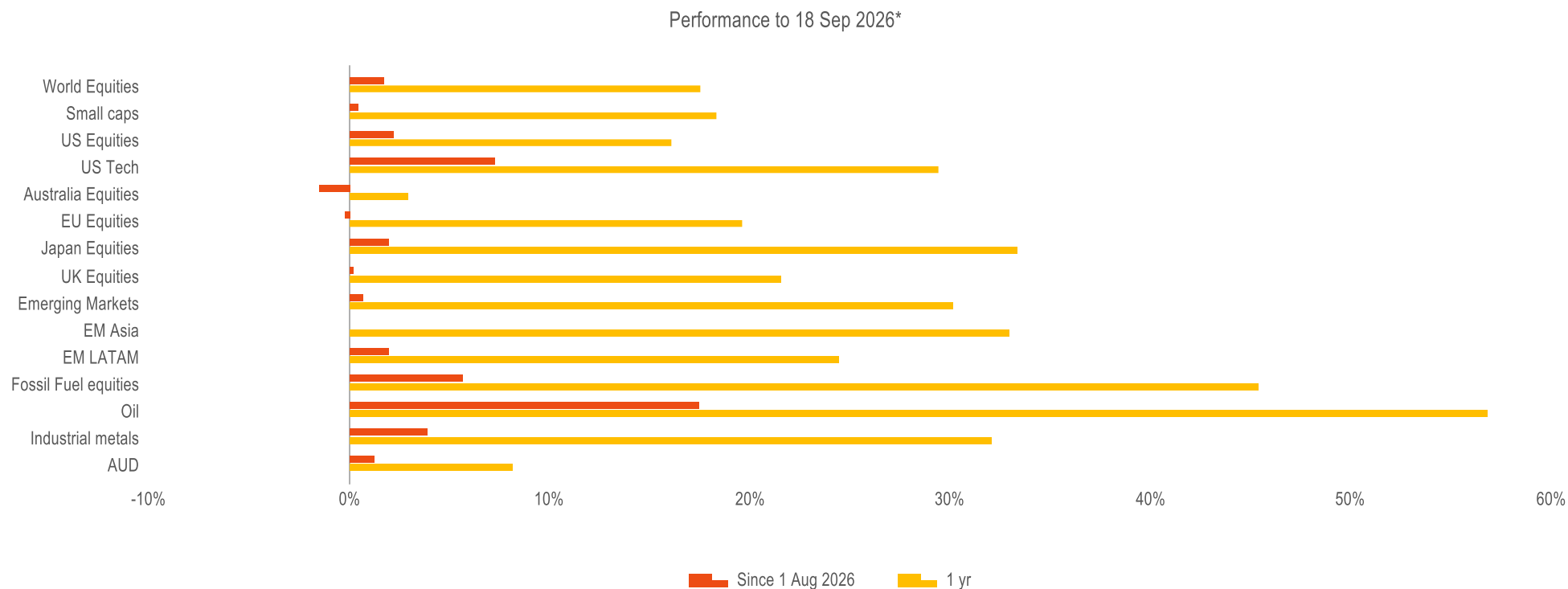


Source: LSEG Datastream

- Yield premiums are higher than recent lows but are at or below long-term median levels. This is not indicating stressed/stretched treasury market conditions.
- 30-year bond yields have risen but the relative yield differential with the 10-year government bond yields has fallen over the past 12 months and is around the long-term historical median level.

Market moves

Markets are navigating risks without triggering a flight to safety



Source: LSEG Datastream

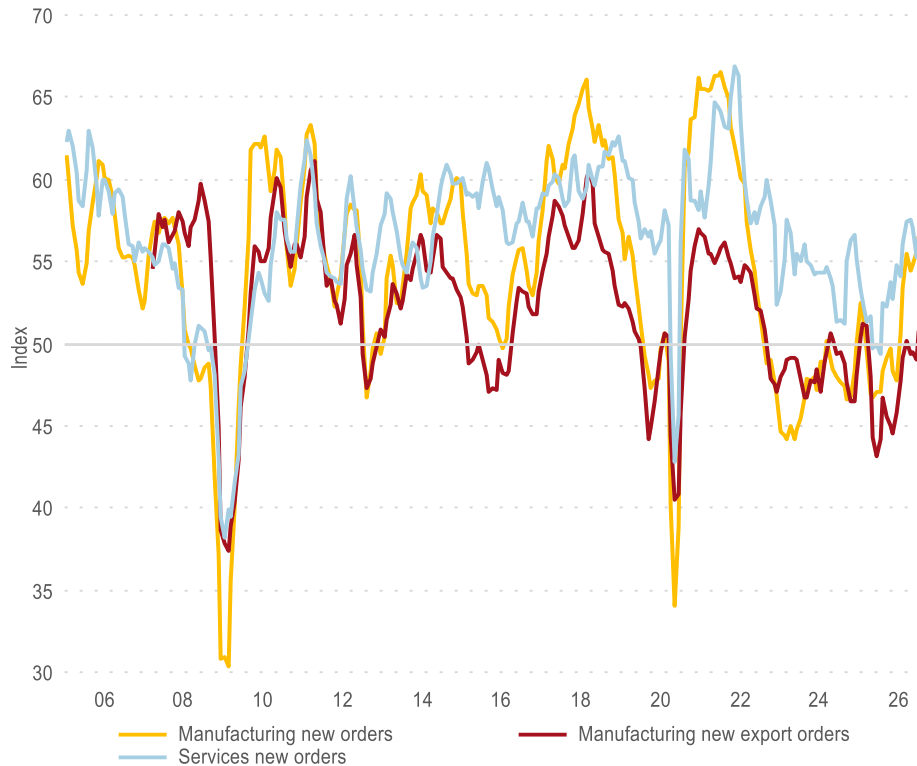
*intraday data some indices may not be updated to this date

- Higher bond yields raise the discount rate used to value future cash flows, impacting longer duration assets in particular. AI technology companies are viewed as long duration as much of valuation comes from earnings expected well into the future.
- So far, equities markets are not showing signs of stress, continuing to post gains despite some volatility, mostly navigating geopolitical events and central bank announcements.

US economy

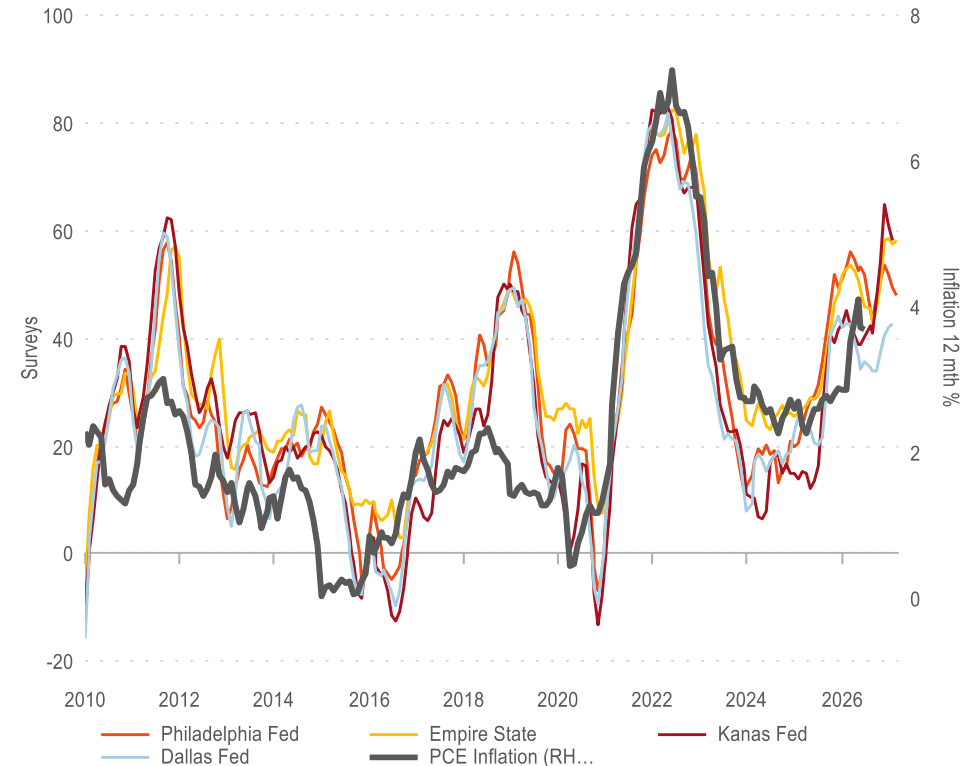
Strong growth signals from new orders, but input prices are rising

US ISM PMI new orders, 3MMA



Source: LSEG Datastream

US manufacturing surveys - prices paid (6mth lead, 3MMA) vs PCE Inflation

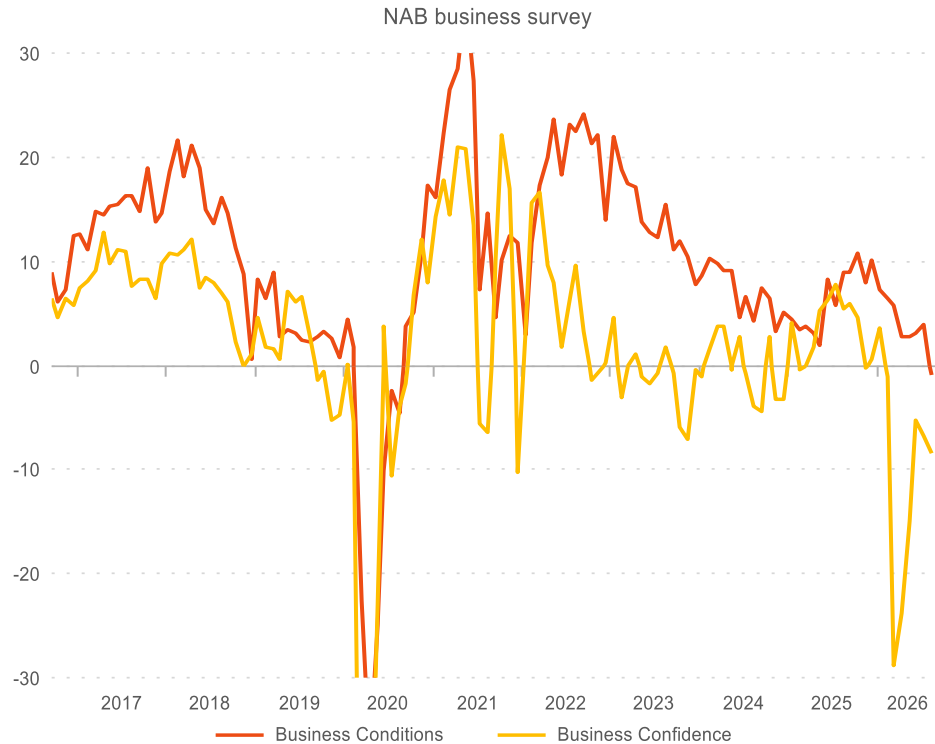


Source: LSEG Datastream

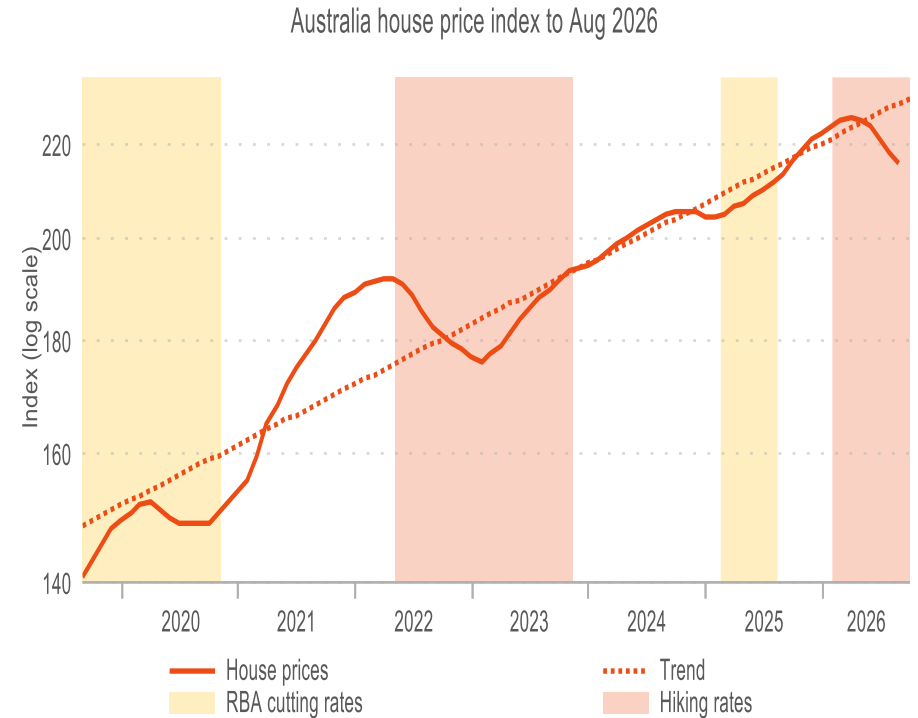
- Survey indicators suggesting strong economic momentum as orders pick up across manufacturing and service sectors, but input costs are rising and the consumer is facing higher inflation.
- We will continue to monitor for any slowdown of activity.

Australia economy

Signs of a slowing economy into additional rate hikes



Source: LSEG Datastream



Source: LSEG Datastream

- Economic environment appears to be at greater risk in Australia as business sentiment collapsed since the RBA has tightened rates this year. Inflation problems appear to be more structural in nature. Unemployment rates have risen in certain geographies, but a wider slowdown could pause hikes.
- House prices are experiencing one of the steepest declines in recent history due to tax changes and higher rates. This is expected to contribute to slowdown of construction and consumption activity.

What this means and what to do now

A repricing of inflation and supply risk, not a market breakdown - but portfolios should be tested now

Global bond yields have reached multi-decade highs, driven by a re-escalation of Middle East conflict, which was pushed oil back above US\$100/b and increased inflation risks. Heavy government and corporate borrowing are adding to pressures. Central banks have responded with a renewed tightening bias, and the Federal Reserve delivered its first hike in over three years.

Importantly, this looks like a repricing of inflation and supply risk rather than a breakdown in market functioning. The term premium has normalised from negative levels, the 30-year to 10-year differential sits near its long-term median and contagion into other asset classes has so far been contained with equities mostly gaining.

The implications are nonetheless real. Higher discount rates weigh on long-duration assets – infrastructure, unlisted property, private equity and AI-related growth equities – while credit borrowers face more expensive refinancing at a time of rising AI disruption uncertainty.

There are opportunities too. Inflation-linked bonds offer real yields at multi-decade highs and strong inflation protection, nominal government bonds offer attractive carry and higher short rates improve returns on cash and lower-duration assets.



What now: Three priorities for investors

- Test portfolio inflation resilience against a sustained higher-inflation regime, consistent with our Annual Secular Outlook.
- Revisit duration, valuation and discount rate assumptions across long-duration listed and unlisted assets.
- Monitor for signs of genuine stress across markets and economies – downward earnings revisions, rising unemployment, weakening forward orders – and pre-agree the portfolio actions that would follow.

Talk to us. We would welcome the opportunity to discuss what these moves mean for your portfolio, your inflation resilience and your positioning from here. Please contact your Frontier client team.



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