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First to Market

August 19, 2026

DISSECTING THE LATEST SURGE IN GLOBAL BOND YIELDS

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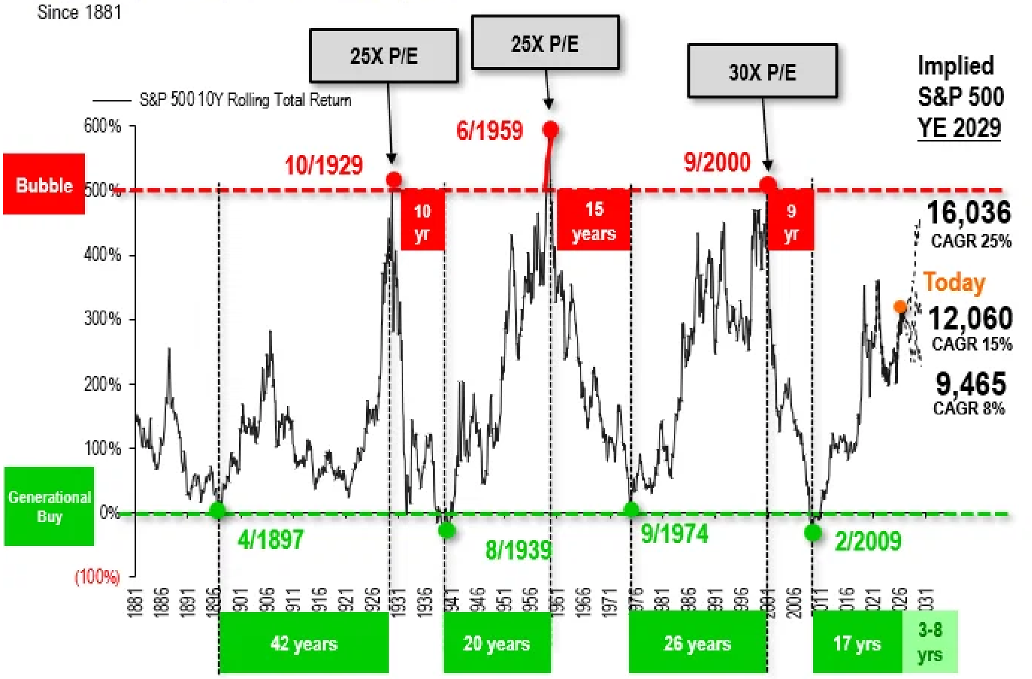
Chart of the Day

Long-term bull markets see peak acceleration to 500% 10-yr returns

Long-term bull markets last 20-42 years and peak returns accelerate to cumulative gain 500%…

- **The current bull market has risen for 17 years and if the history plays out, S&P 500 could reach 20,000 YE 2029 vs. 7,750 now.**

Figure: 10-year rolling returns of the US equities
Since 1881



To achieve 16,036 by '29		
EPS GAGR	P/E CAGR	Ending P/E
15%	8%	34x
12%	11%	37x
10%	13%	40x
8%	15%	42x
5%	18%	46x

Source: Fundstrat, Bloomberg

Disclaimer: Past performance does not guarantee future results

Good morning!

Yields on government bonds across the globe are at multidecade highs, choking out investors' appetite for risky assets.

The 30-year Treasury yield rose as much as 5.337% Tuesday, the highest intraday level in about two decades. In Japan, the 10-year Treasury yield was at roughly a 30-year high; In Germany, the 10-year Bund yield was at a 15-year high; and in the U.K., the 30-year gilt yield was near a 28-year high.

The surge in yields added pressure on stocks, with investors fretting that the increase could spell an end for this unrelenting bull mania. The S&P 500 $SPY lost 0.7%.

Stocks that had run up the most in recent days were the biggest losers: Coherent $COHR declined 13%, Seagate $STX slipped 9.2%, and Sandisk $SNDK slid 9.1%.

My take is that the worries will fade, which will allow stocks to resume and extend gains.

For starters, a reason behind yields' rise is the surge in global debt for which there's no easy cure, which itself is the cure. In the U.S. alone, debt levels could shortly cross the big, round, juicy $40 trillion mark. It's a very real concern that at some point, countries will simply be unable to pay back all that they've borrowed without sending deficits even higher. That's 100% a problem, and no one's disagreeing with that, but the thinking diverges on the timing of when exactly it'll become a problem.

A couple weeks ago, I wrote about how the government is paying crazy sums on interest, but they can't exactly cut that without sending yields even higher because if they did, a self-fullfilling cycle will make interest costs even higher. They can't back away from the other categories of social security, Medicare and Medicaid either because Americans depend on them. And spending on defense, despite all the headlines it gathers, remains much smaller than everything else.

So high government spending is the new normal, and investors have no choice but to come to terms with it.

Another reason driving up bonds could be that investors are repricing bets for a war-heavy regime, and that shift in sentiment has only happened in recent days. That's because even a few weeks ago, some bulls seemed convinced that the U.S. and Iran wanted peace, but with Iran preparing for a longer, larger conflict, peace seems like a distant dream. Oil prices could remain near the $70-$80 a barrel range, and maybe even hit the $90 occasionally when bombs are dropped and harsh words are exchanged.

On a larger scale, this means that the supply-side shock to inflation won't be switching back to a demand-side shock anytime soon, which means the Federal Reserve can do little to bring inflation back to target. Raising rates will likely have little-to-no impact on the categories that have driven inflation the most after the pandemic, yet at the same time, if the Fed doesn't raise rates or at least threaten to, bond investors will send rates higher anyway because the headline inflation numbers indicate rates should move up.

Another thing to note is that while monetary policy feels tight for lower-income consumers, it's not restrictive for corporations, which continue to borrow at near record sums, and the upper half-consumers of the K-shaped economy. I doubt that even a half-percentage point hike will make the latter group reconsider their luxury purchases.

So I expect the Fed to hold rates steady until at least November, which should tamp down yields, as well. I recommend buying the dip here before that trend plays out.

I'd be worried if the 10-year Treasury yield crosses 5% because then it'll be felt throughout the economy via mortgages, student loans, car loans. More importantly, historical analysis shows that's the level after which stocks' valuations get hurt. In the post financial crisis era, the 10-year has crossed the 5% level only once in October 2023.

Share your thoughts

Are you worried about the recent rise in yields? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Do you favor the longer-term power-grid plays, or those focusing on stopgap solutions?

A: I am not focusing on grid plays or stopgap solutions. Photonics advancements hold the promise to make data centers more efficient and result in less power use. Investing in companies depending on further grid build out sounds like investing in Global Crossing 2.0.

Catch up with Fundstrat

We are updating our Top 5 and Bottom 5 Large-cap and SMID-cap Core Stock Ideas.

Technical

Financials outperforming into a steepening curve is the tell that separates a rates repricing from a genuine credit-driven risk-off.

Crypto

The most important crypto-specific development today came from the SEC, which published a proposal outlining a tailored offering regime for certain investment contracts involving crypto assets. Though the details require more analysis, my initial read appears quite favorable for token-based projects.

News We're Following

Breaking News

- Moderna’s stock doubles on promising cancer-vaccine results MW
- Iran reportedly weighs attacks on U.S. targets in Europe as UAE severs trade with Tehran CNBC

Markets and economy

- Trump says US and Canada have reached last-minute deal to delay 50% US tariffs on Canadian imports AP

Business

- Target lifts annual forecasts again as Fiddelke's turnaround takes root REU
- Analog Devices profit, revenue up on surging AI data center demand WSJ
- Samsung hikes chipmaking prices by up to 15% on demand spike, sources say REU
- SK Hynix moves to calm market with $29 billion share buyback BBG

- Chinese robotics giant Unitree soars in stock market debut BBC

Politics/U.S.

- Fake polling from mysterious company highlights danger of unvetted election surveys AP
- Florida rejects Democratic establishment — and even snubs Trump POL

Overseas

- Zelenskyy's office is probed for corruption as fired defense minister demands elections AP
- Israel opens criminal probes over killings of Hind Rajab and Gaza rescue workers, military says REU
- French civil servant drugged us to make us urinate on ourselves, say accusers BBC

Of Interest

- Archaeologists unveil skeletal remains believed to be ritual offering in Peru AP

Overnight

S&P Futures	+1 ▲ point(s) (+0.01% ▲)
overnight range:	-16 ▼ to +8 ▲ point(s)

APAC

Nikkei	-3.16% ▼
Topix	-3.09% ▼
China SHCOMP	-2.40% ▼
Hang Seng	+0.09% ▲
Korea	-5.80% ▼
Singapore	-0.13% ▼
Australia	-0.18% ▼
India	-0.44% ▼

Taiwan	-1.30% ▼

Europe

Stoxx	50 0.00%
Stoxx	600 -0.12% ▼
FTSE	100 -0.18% ▼
DAX	-0.17% ▼
CAC	40 +0.24% ▲
Italy	-0.18% ▼
IBEX	-0.24% ▼
Canada	-0.82% ▼
Mexico	-0.50% ▼
Brazil	-0.27% ▼

FX

Dollar Index (DXY)	-0.24% ▼ to 99.418
EUR/USD	+0.27% ▲ to 1.1607
GBP/USD	+0.19% ▲ to 1.3558
USD/JPY	+0.32% ▲ to 159.10
USD/CNY	+0.09% ▲ to 6.7380
USD/CNH	+0.10% ▲ to 6.7393
USD/CHF	+0.27% ▲ to 0.8101
USD/CAD	+0.20% ▲ to 1.3870
AUD/USD	-0.11% ▼ to 0.7080

UST Term Structure

2Y-3M Spread narrowed	-1.6bps ▼ to 36.5bps
10Y-2Y Spread widened	0.5bps to 53.6bps
30Y-10Y Spread widened	0.7bps to 58.3bps

USD HY OaS

All Sectors	+7.4bps ▲ to 311bps
All Sectors ex-Energy	+6.2bps ▲ 304bps
Cons Disc	+9.2bps ▲ to 508bps
Indu	+4.4bps ▲ to 241bps
Tech	+0.8bps ▲ to 209bps
Comm Srvcs	+8.1bps ▲ to 301bps
Materials	+4.4bps ▲ to 274bps
Energy	+4.4bps ▲ to 283bps
Fin Snr	+5.3bps ▲ to 192bps
Fin Sub	+5.5bps ▲ to 288bps
Cons Staples	+11.1bps ▲ to 475bps
Healthcare	+6.5bps ▲ to 322bps
Utes	+5.6bps ▲ to 216bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
8/19	2:00 PM	Jul 29 FOMC Minutes	n/a	0
8/21	9:45 AM	Aug P S&P Srvcs PMI	54	54.6
8/21	9:45 AM	Aug P S&P Manu PMI	53.9	53.9
8/25	9:00 AM	Jun S&P Cotality CS 20-City m/m	0.2	0.15
8/25	10:00 AM	Aug Conf Board Sentiment	90.2	90.8
8/25	10:00 AM	Jul New Home Sales	620	628
8/25	10:00 AM	Jul New Home Sales m/m	-1.3	1.6

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