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First to Market

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LONG-TERM YIELDS COME DOWN BRIEFLY, BUT AT WHAT COST

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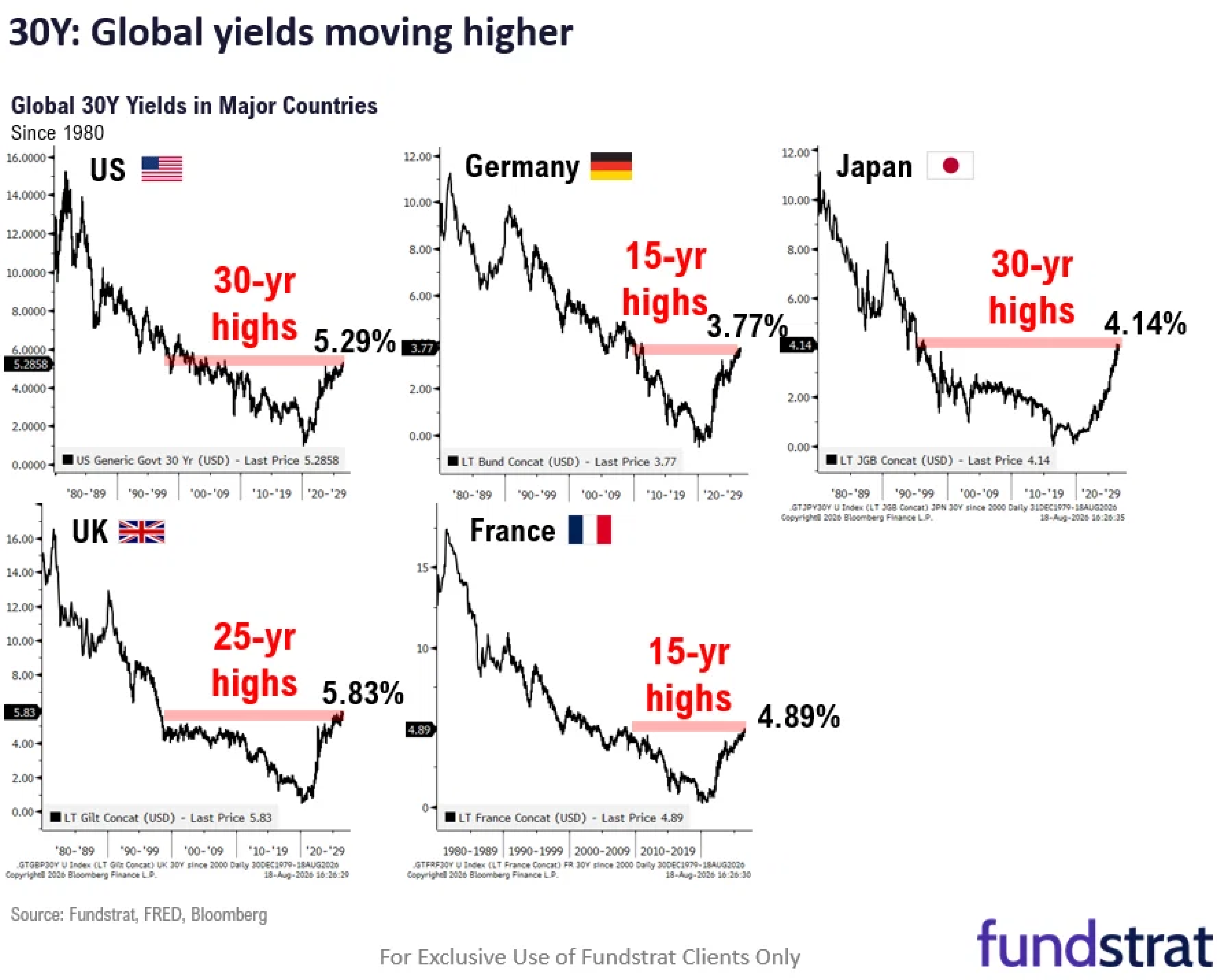
Chart of the Day



Good morning!

Treasury Secretary Scott Bessent on Wednesday tamped down the longer-end of the yield curve, going against the strategy of Federal Reserve Chair Kevin Warsh.

Though it worked out yesterday, my view is that the Bessent put is still going to fail to keep yields down from multidecade highs over the longer term.

The 30-year Treasury yield slipped to 5.194%, noting its biggest one-day decline since October. The 10-year Treasury yield, which sets borrowing costs on everything from mortgages to student loans to car loans, tumbled to 4.651%. The declines came after the Treasury announced it would increase the size of its buyback operation for Treasury securities maturing in 10 to 20 years and 20 to 30 years, going from $2 billion to “at least” $4 billion. The initiative is scheduled to start on Sept. 9 and continue through Nov. 4, ending a day after the midterm elections.

Per the press release, the move reflects the Treasury’s “desire to provide greater liquidity support in the longer-dated nominal sector.” Older, off-the-run securities aren’t as actively traded, so it makes sense for the Treasury to buy them back, which would drag down yields. The longer-duration bonds are also more likely to be held by life insurers and pensioners for liability matching.

At the same time, the timing of the announcement got investors interpreting it as a test of the Fed’s independence. If this move hadn't come against the backdrop of a historic surge in yields, then it’s likely that other than bond nerds, few would have cared about the news. For added context, even before the recent increase, bond yields have been stuck trading in an elevated range. Over the 394 trading days from Jan. 15, 2025 to July 22, 2026, the 10-year Treasury yield has settled within a 75-basis points range, the longest such streak since 1966 when the last 75-basis points stretch ended, according to Fundstrat’s Macro Data Scientist Alex Wang.

The recent run-up, however, has been particularly scary because Warsh has said that he wants to get rid of forward guidance, adding to stock and bond investors’ growing uncertainty.

He prefers to let the market do its thing, saying at the last Fed presser that “market participants are learning to play the ball, not the referee.” He interpreted the recent increase in yields as kind of a rate hike without the Fed having to increase interest rates, saying that even though the Fed hasn’t “done much in 42 days, the markets have done quite a bit.” (Arguably, one reason why yields are going up is because of Warsh’s unclear stance.)

So Bessent’s proxy intervention arguably interferes with Warsh's attempt to let market participants independently set the yield without being influenced by the Fed.

Perhaps it's a silver lining that it’s doubtful the strategy will continue to work anyway. Here's why:

For starters, in the grand scheme of things, $4 billion is such a small amount that it seems unlikely to have any lasting material impact. When the mere net interest debt runs in the hundreds of billions range every month, a single-digit billion amount won't woo investors for long.

Then secondly, Bessent likely won't have the stamina to increase the amount much more because the Treasury can only buy back so much without issuing more short-term bonds, which would become a fresh source of pain.

A greater supply would drag down prices and boost yields, which in turn, would blow overall U.S. debt way past the $40 trillion mark it crossed yesterday. Already in recent days, a ballooning deficit that has little-to-no-prospects of going away has had a hand in driving yields higher.

Issuing more short-term bonds is also problematic because the Fed has more control over influencing that part of the yield curve with their monetary policy. If the Fed were to then decide to raise interest rates, then that could increase interest costs even more and with it, increase the debt even more.

Beesent's trick worked this time, but making yields go down over the longer period will require the painful work of bringing down the debt.

Share your thoughts

Do you think it was right of Bessent to buy back long-term bonds? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Are you worried about the recent rise in yields?

A: Am I worried about the recent rise in interest rates? "What rise?" is my question. At the age of 77 years young, today's current rates look low to me. I've never purchased a home with a mortgage rate lower than 7.25%. CD rates have been artificially low for many years, penalizing savers. Equity investors consider themselves to be capitalists, so let the free market decide interest rates and if they are higher than today, all the better for the retirement incomes of the baby boomers!

Catch up with Fundstrat

We discuss how a combination of factors triggered a +25% rise in Ethereum and +12% rise in Bitcoin. Crypto remains an AI downstream trade.

Technical

Today's bull flattener and subsequent U.S. dollar weakness is a near-term gift to equities, Treasuries, commodities, emerging-market currencies, and cryptocurrencies, and I expect $SPX, $QQQ, the equal-weighted index, and $DJIA to all push back into new all-time high territory into Jackson Hole next week.

Crypto

There was a lot to like about yesterday’s price action. We finally got the volatility expansion that the exceptionally compressed realized-volatility regime suggested was coming, and the initial move was decisively higher. Short covering undoubtedly amplified the rally, but strong IBIT volumes and the potential for trend-following flows provide reasons to think we could see some continuation here.

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Of Interest

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Overnight	
S&P Futures	-6 ▼ point(s) (-0.07% ▼)
overnight range:	-14 ▼ to +18 ▲ point(s)

APAC	
Nikkei	+1.36% ▲
Topix	+1.18% ▲
China SHCOMP	+0.24% ▲
Hang Seng	+0.80% ▲

Hang Seng	[illegible] ▲
Korea	+5.89% ▲
Singapore	-0.39% ▼
Australia	+0.33% ▲
India	+0.59% ▲
Taiwan	+0.48% ▲

Europe

Stoxx	50 -0.23% ▼
Stoxx	600 -0.12% ▼
FTSE	100 -0.18% ▼
DAX	-0.50% ▼
CAC	40 -0.23% ▼
Italy	+0.26% ▲
IBEX	+0.22% ▲
Canada	+0.09% ▲
Mexico	+0.10% ▲
Brazil	+0.90% ▲

FX

Dollar Index (DXY)	-0.19% ▼ to 98.644
EUR/USD	+0.23% ▲ to 1.1704
GBP/USD	+0.29% ▲ to 1.3646
USD/JPY	-0.09% ▼ to 158.31
USD/CNY	+0.11% ▲ to 6.7220
USD/CNH	+0.13% ▲ to 6.7223

USD/CHF	+0.20% ▲ to 0.7958
USD/CAD	+0.30% ▲ to 1.3768
AUD/USD	+0.04% ▲ to 0.7128

UST Term Structure

2Y-3M Spread widened	0.7bps to 37.5bps
10Y-2Y Spread widened	1.5bps to 49.6bps
30Y-10Y Spread widened	0.4bps to 54.7bps

USD HY OaS

All Sectors	-2.2bps ▼ to 309bps
All Sectors ex-Energy	-3.9bps ▼ 300bps
Cons Disc	-4.3bps ▼ to 504bps
Indu	-3.7bps ▼ to 238bps
Tech	-1.9bps ▼ to 208bps
Comm Srvcs	-7.4bps ▼ to 293bps
Materials	-3.9bps ▼ to 270bps
Energy	-3.1bps ▼ to 280bps
Fin Snr	-3.7bps ▼ to 188bps
Fin Sub	-3.1bps ▼ to 285bps
Cons Staples	-6.3bps ▼ to 469bps
Healthcare	-3.6bps ▼ to 318bps
Utes	-2.3bps ▼ to 214bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
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
8/26	8:30 AM	Jul PCE m/m	0.1	-0.1
8/26	8:30 AM	Jul Core PCE m/m	0.2	0.13
8/26	8:30 AM	Jul PCE y/y	3.6	3.7
8/26	8:30 AM	Jul Core PCE y/y	3.25	3.28653
8/26	8:30 AM	2Q P GDP QoQ	1.5	1.5
8/26	8:30 AM	Jul P Durable Gds Orders	0.5	0.5

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