

Rise in US government bond yields: a structural trend not called into question by the government's announcements

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Confidential

Summary

Yields on long-term US Treasury bonds have reached their highest level in two decades: 5.19% on 27 August for 30-year bonds – a rise of 33 basis points since late June 2026 – and 4.67% for 10-year bonds. This rise in government bond yields indirectly increases the cost of borrowing for businesses and households, with a particularly pronounced effect on the sectors most sensitive to credit conditions, starting with the property sector.

In response to this situation, US Treasury Secretary Scott Bessent announced on 19 August that his administration intended to double the volume of its buybacks of long-term debt, from \$2 billion to \$4 billion, although this had no significant impact on market rates. Following this relative failure, the US Treasury suggested that it might draw on its Treasury General Account (TGA, approximately \$950 billion) to finance government bond buybacks, which would give it significant room for manoeuvre on long-term yields, whilst ruling out the idea of turning to the Fed. Although the precise terms and the amount ultimately drawn down remain unclear, the scale of the funds available could be enough to reassure some investors. These government announcements mark a turning point: this is the first time in several decades that the US Treasury has sought to exert a direct influence on bond prices (apart from periods of very high volatility and obvious market dysfunction, such as in March 2020).

If these Treasury announcements fail to bring down long-term US bond yields, it is because they do not address the fundamental drivers of this rise. Among these the trajectory of US debt – which in mid-August exceeded the record level of \$40,000 billion – weighed down by a widening deficit due to lower customs revenue, rising military expenditure and increased interest payments. If borrowing rates were to remain at their current levels in the coming years, US public debt could reach 131% of GDP by 2036.

Furthermore, demand for government debt is facing increasing competition from the private sector's financing needs for AI development, as well as a possible withdrawal of Japanese investors. Added to this is a gradual shift in the investor base for Treasury bills, with institutional holders – who are traditionally insensitive to price fluctuations – gradually giving way to private investors who are more responsive to market conditions.

Finally, this rise in rates could also be linked to a possible erosion of the Fed's credibility, given its new president's close ties to D. Trump and his initial public statements, which have increased volatility, whilst inflation has been above its target for the past five years.



1. US Treasury bond yields have reached their highest level in two decades

Since the Covid-19 pandemic, yields on US Treasury bonds have risen sharply, settling at levels that are consistently higher than those seen over the previous decade.

Since March 2020, the yield on 10-year government bonds has risen almost steadily, peaking at nearly 5% in October 2023 – a level not seen since 2007. Since then, despite a few periods of easing – in mid-2024 (a fall of 82 basis points between April and September 2024) and a fall of 50 basis points between January 2025 and February 2026 – yields have stabilised at historically high levels (4.3 per cent). They have been rising again since February 2026, reaching 4.67 per cent on 27 August 2026.

Furthermore, expectations are not on a downward trend. According to a 'Markets Pulse' survey conducted in late August 2026, two-thirds of those surveyed¹ expect 10-year Treasury yields to exceed 5% before the end of the year (which is already the case for 20- and 30-year yields, see Figure below), with 38% expecting this to happen in the fourth quarter and 28% as early as September².

Figure 1 – Yields on 10-, 20- and 30-year US Treasury bonds



Source: LSEG Datastream

Whilst the cost of financing US public debt is rising across all maturities, long-term rates are rising more sharply due to their greater sensitivity to risks such as inflation – which has been above the Federal Reserve's target for the past five years – the sharp rise in public debt, and weaker demand (see Part 2).

Consequently, the yield on 30-year US Treasury bonds reached its highest level in nearly twenty years, standing at 5.19 per cent on 27 August. This represents a rise of 33 basis points since the end of June 2026. This rise in long-term borrowing costs is detrimental to the economy as a whole: it drives up the

¹ Note: Bloomberg does not provide details on the profile of those surveyed. However, this type of Markets Pulse survey is generally published on the Bloomberg terminal and online, making it more likely that the respondents are investors who are familiar with or have an interest in the subject.

² US 10-Year Treasury Yield Will Top 5% This Year: Markets Pulse, *Bloomberg.com*, 19 August 2026

government's interest payments and has knock-on effects on corporate bonds, bank lending rates and, consequently, on sectors sensitive to these factors (primarily real estate sector³).

In response to this situation, **US Treasury Secretary Scott Bessent announced** on Wednesday 19 August **that his administration intended to double the volume of its buybacks in the 10–20-year and 20–30-year segments, from USD 2 billion to at least USD 4 billion per transaction**, which led to a fall in 10-year and 30-year yields – by 0.1 and 0.14 percentage points respectively – as well as a half-percentage-point decline in the dollar against other currencies⁴.

The schedule published during the August *Quarterly Refunding* provides for seven operations in these segments between the measure coming into force and 4 November: four in the 10–20-year segment and three in the 20–30-year segment. Their combined capacity thus rises from a maximum of USD 14 billion to at least USD 28 billion over this period. These operations relate to older (*off-the-run*) securities, which have become less liquid following the issue of new benchmark bonds. They are part of a regular programme launched in May 2024, with an initial ceiling of USD 2 billion per operation on nominal securities.

This measure might appear primarily symbolic, given that **it accounts for only 2.4 per cent of the total outstanding long-term US Treasury debt** (approximately 5,300 billion dollars). However, the picture is quite different when viewed in terms of flows: relative to the annual volume of Treasury issues, it represents nearly 10 per cent⁵.

However, this relief was short-lived. Long-term bond yields subsequently rose: the 30-year yield rose by 0.06 percentage points to stand at 5.24% during trading in New York the day after S. Bessent's speech⁶.

Following the relative failure of these initial announcements to reassure investors, the US Treasury suggested on 25 August that it might draw on its Treasury General Account (TGA) to help finance purchases of government bonds, whose balance currently stands at around \$950 billion. Using the TGA would potentially give the Treasury considerable scope to influence long-term bond yields, whilst allaying certain fears expressed by investors that the Fed might be called upon to assist the Treasury in such operations. Although the precise terms of the TGA's use have not been clearly set out, nor the amount that would ultimately be mobilised, the sums available could be sufficient to reassure some investors⁷.

This rise in borrowing costs is not a phenomenon confined to the United States. Indeed, certain global factors – the accumulation of public debt in the face of a succession of crises (pandemic, war in Iran), rising social security costs due to an ageing population, and increased defence spending – **have pushed long-term borrowing costs worldwide to their highest levels in several decades**⁸.

³ [US Treasury buyback strategy falls short as debt worries persist](#), *Reuters*, 20 August 2026

⁴ [Scott Bessent, the US Treasury Secretary, takes on the bond markets to bring down rates](#), *Le Monde.fr*, 21 August 2026

⁵ [Scott Bessent, the US Treasury Secretary, takes on the bond markets to bring down rates](#), *Le Monde*, 21 August 2026

⁶ [US long-term bonds slide as Treasury Secretary Bessent's intervention fails to reassure investors](#), *Financial Times*, 20 August 2026

⁷ [Bessent's \\$1 trillion Treasury General Account bond buybacks](#), *CNBC*, 24 August 2026

⁸ [US Treasury buyback strategy falls short as debt worries persist](#) | *Reuters*, *Reuters*, 20 August 2026

Figure 2– Yields on 30-year government bonds for a selection of advanced economies



Source: LSEG Datastream

This is the case in the other major advanced economies. In **France**, for example, 30-year rates have reached **their highest level since 2008**, whilst their **German** counterparts were trading **at levels similar to those seen in 2011**. Similarly, **UK yields on bonds with the same maturity have approached 6 per cent**, well above their historical levels, whilst **Japanese bond yields with the same maturity are also at historically high levels**⁹ (see Figure 2).

This rise in government borrowing costs is weighing heavily enough to prompt governments to review the composition of their bond issues, moving away from long-term securities in favour of shorter-term instruments. This is particularly the case in **the United Kingdom**, where the authorities have put most of the planned long-term bond issues on hold¹⁰.

⁹ [Long-term debt costs soar to highest in decades as bonds slump](#), *Bloomberg*, 18 August 2026

¹⁰ [Long-term debt costs soar to highest in decades as bonds slump](#), *Bloomberg*, 18 August 2026

2. There are many reasons for the structural rise in US government bond yields

Several factors help to explain this situation. Indeed, this sharp rise in US interest rates **has been driven by four main factors**: the widening of the US budget deficit and the accumulation of public debt; risks relating to inflation and the independence of the central bank; increased competition in the bond market amid lower demand; and a shift in investor behaviour.

2.1. Rapidly rising US public debt, weighed down by a persistent deficit and vulnerable to a sustained rise in borrowing costs

2.1.1 US public debt has hit a new record high, weighed down by the measures contained in the 'Big Beautiful Bill', lower customs revenues and rising military expenditure

In mid-August, US public debt reached a record high of \$40,000 billion, fuelling market participants' fears regarding the US fiscal trajectory, despite President Donald Trump's commitment to contain public spending. Treasury Secretary Scott Bessent had, in fact, pledged to reduce the budget deficit to 3% of GDP by the end of Trump's term in office. **The national debt has thus more than doubled since 2017**, when Donald Trump began his first term as President of the United States¹¹.

Similarly, in 2026 alone, US public debt rose by **3,000 billion dollars – the fastest rate ever recorded outside the pandemic period**¹². According to estimates by the Congressional Joint Economic Committee, this rise represents an increase in debt of around **7.9 billion dollars per day, or approximately 91,000 dollars per second**¹³.

This acceleration in public debt is due to several factors. Firstly, the enactment a year ago (on 4 July 2025) of President D. Trump's flagship budget bill, commonly known as the 'One Big Beautiful Bill', **is expected to increase the debt by more than \$4,000 billion by 2034**¹⁴.

Whilst the bill does indeed include measures to reduce spending in certain areas (cuts to federal social programmes and the scrapping of support mechanisms for the energy transition), **it mainly contains tax provisions aimed at extending tax credits for American workers and businesses**. According to estimates by the Congressional Budget Office (CBO), the combined measures could contribute to widening the US deficit by around 1.5% of GDP per year between 2026 and 2028, which would represent an increase in debt of around \$1,600 billion over those three years¹⁵.

The CBO expects the public deficit, after falling from 6.3 per cent of GDP in 2024 to 5.9 per cent of GDP in 2025, **to widen further to 6.4 per cent of GDP in 2026**, compared with the 5.8 per cent initially forecast in February 2026 – **amounting to \$2,100 billion, \$200 billion more than the \$1,900 billion originally forecast**. These revisions are due to lower revenue (of around \$200 billion), mainly as a result of lower-than-expected customs revenue (a consequence of a Supreme Court ruling handed down after the publication of the CBO's baseline projections)¹⁶.

¹¹ [US Treasury buyback strategy falls short as debt worries persist](#), *Reuters*, 20 August 2026

¹² [US government debt hits \\$40tn as borrowing rises at a historic rate](#), *Financial Times*, 19 August 2026

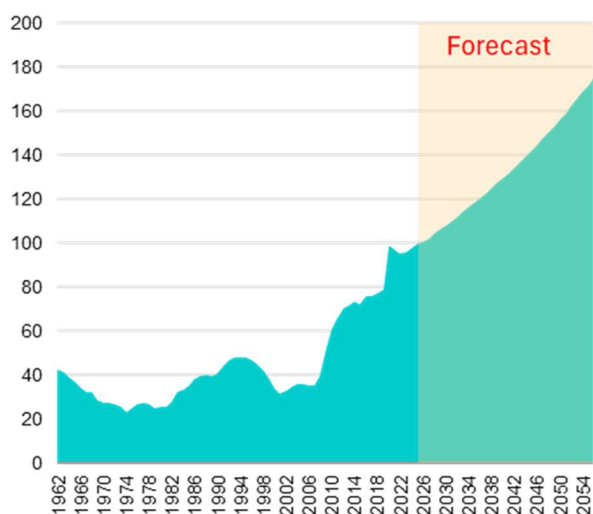
¹³ [US government debt hits \\$40tn as borrowing rises at a historic rate](#), *Financial Times*, 19 August 2026

¹⁴ [US government debt hits \\$40tn as borrowing rises at a historic rate](#), *Financial Times*, 19 August 2026

¹⁵ [Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act, Relative to the Budget Enforcement Baseline for Consideration in the Senate](#), *Congressional Budget Office*, 28 June 2025

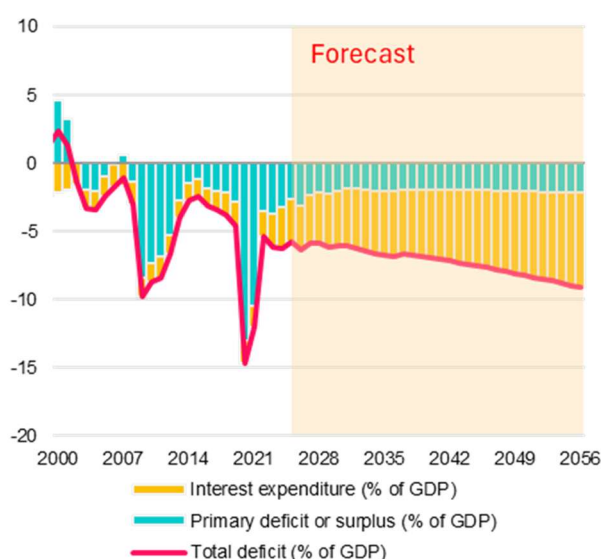
¹⁶ [Monthly Budget Review: August 2026](#), *Congressional Budget Office*, 10 August 2026

Figure 3 – Projected level of US federal debt held by the public (as a % of GDP)



Source: Congressional Budget Office

Figure 4 – Projected US budget deficit



Source: Congressional Budget Office

Indeed, part of the budgetary balance of the 'One Big Beautiful Bill' relied on customs revenue collected through the various and numerous tariffs introduced by the Trump administration. **However, net customs revenue for the 2026 financial year is expected to stand at around \$250 billion, below the projections made in February 2026.** Half of this shortfall is attributable to the refund, during the 2026 financial year, of the bulk of the \$166 billion in revenue collected under the IEEPA¹⁷, following the Supreme Court's decision invalidating these tariffs¹⁸.

Consequently, the projected primary deficits for the period 2027–2036 **have been revised upwards by \$900 billion compared with the baseline projections established by the CBO in February 2026**, comprising \$700 billion in additional primary deficits and \$200 billion in additional debt-servicing costs¹⁹.

Added to this shortfall in revenue is a rise in military expenditure: in April, President D. Trump sought Congress's approval for a defence budget of unprecedented scale, amounting to **\$1,500 billion for the 2027 financial year**, in a context where the United States is facing rising costs linked to the conflict with Iran as well as growing global security imperatives. **Such a measure would result in a surge of more than 40 per cent in funding allocated to the Pentagon over a single financial year** – a level not seen since the Second World War – as Washington seeks to finance the continuation of its military operations whilst replenishing severely depleted arms stocks²⁰.

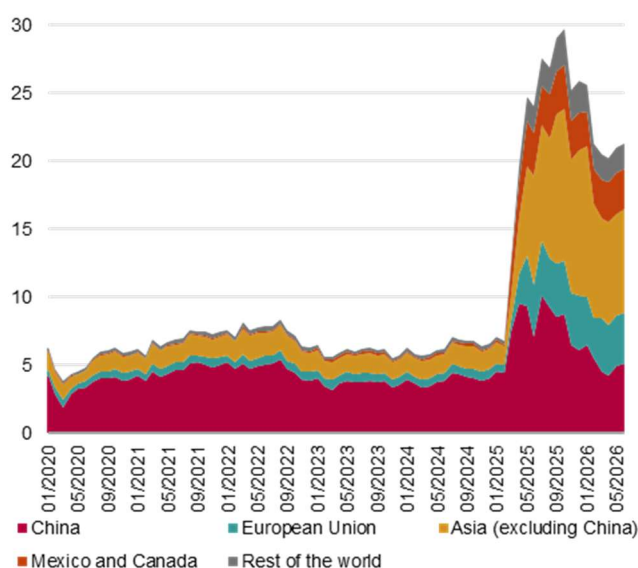
¹⁷ Note: International Emergency Economic Powers Act

¹⁸ [CBO's Updated Budgetary Projections of Tariffs as at 31 July 2026](#), Congressional Budget Office, 31 July 2026

¹⁹ [CBO's Updated Budgetary Projections of Tariffs as at 31 July 2026](#), Congressional Budget Office, 31 July 2026

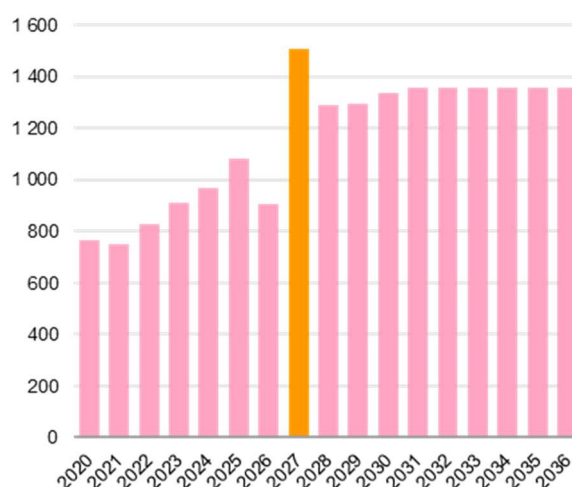
²⁰ [White House calls for massive \\$1.5 trillion defence budget – a 40 per cent increase](#), Le Monde, 3 April 2026

Figure 5 – US customs revenue, in billions of dollars



Source: US Census Bureau

Figure 6 – Trend in US defence budget authorisation, in billions of dollars



Source: Congressional Budget Office

Finally, **interest payments on US federal debt have risen sharply since 2020, driven by the combined effect of mounting public debt and rising borrowing rates.** It has thus risen from \$522.8 billion in 2020 to \$882.6 billion in 2023, before crossing the **\$1,000 billion threshold in 2024** (\$1,100 billion), and then reached \$1,200 billion in 2025 – a level already exceeded as of 31 July 2026 for the current financial year. **This trend also reflects the continuous rise in the average interest rate on US debt, which rose from 1.77 per cent in 2020 to 3.45 per cent in July 2026²¹.** This dynamic is self-perpetuating: rising borrowing costs increase the cost of servicing existing debt, which in turn increases the overall cost of public debt. **As a point of comparison, this cost of debt servicing now exceeds federal expenditure on national defence.**

2.1.2 A sustained rise in interest rates results in a gradual increase in the interest burden and a growth in debt

We have quantified the effect of a rise in the implied nominal interest rate on the primary public deficit and US debt held by the public from 2026 to 2036.

We have considered two scenarios: a 100-basis-point shock to the implied nominal interest rate on federal debt, and a 200-basis-point shock to the same implied nominal interest rate.

The first shock actually corresponds to a scenario in which the implied nominal interest rate rises to a level roughly equivalent to, but slightly below, the current market rate on 5-year US government bonds. This is therefore a scenario in which borrowing rates remain at their current levels in the coming years. Given that US debt has an average maturity of just under 6 years²², with rates remaining unchanged, it would therefore take six years for the implied nominal interest rate to rise by around 100 basis points. We have therefore gradually increased the rate so that the shock reaches 100 basis points after 6 years.

The second shock, however, is more pessimistic, as it assumes that a loss of investor confidence and reduced appetite for US Treasury assets would lead to a rise in the cost of debt financing. The implied

²¹ [Interest Expense and Interest Rates | U.S. Treasury Fiscal Data](#), *Fiscal Data*, 31 July 2026

²² [Monthly-Debt-Update-website.knit](#), *Senate*, 8 July 2025

nominal interest rate would then exceed 5 per cent, a threshold that the yield on 10-year US government bonds has not crossed since 2007. Similarly, we have smoothed the rise in the implied nominal rate over six years. Such developments would reflect the potential consequences of a deterioration in the risk associated with US public finances on the financing of federal government debt.

For both of these shocks, there is no return to the initial level in subsequent years.

Presentation of the model's methodology

In order to assess the sustainability of US federal debt held by the public, we calculate the US debt-to-GDP ratio over a 10-year horizon. This ratio follows the following trend:

$$dette_t = dette_{t-1} \times \frac{(1 + r_t)}{(1 + g_t)} + sp_t - \Delta pe_t$$

Where $dette_t$ ($dette_{t-1}$) corresponds to the ratio of public debt to GDP at the end of year t (year $t-1$), r_t denotes the real implicit interest rate on public debt, g_t denotes the real GDP growth rate in year t relative to year $t-1$, sp_t denotes the primary balance as a percentage of GDP in year t , and Δpe_t denotes the change in government net worth between year t and year $t-1$.

All historical data are sourced from the CBO (updated in February 2026). We also use the CBO's macroeconomic projections regarding growth and public finances.

Having replicated the US debt trajectory in the absence of economic shocks (the baseline scenario), we construct alternative scenarios, enabling us to explore different possible debt trajectories in response to our various shocks.

To construct this baseline scenario, we have used the CBO's February 2026 forecasts for the US deficit, to which we have added the revisions made by the CBO in its August 2026 monthly review.

A 100-basis-point increase in the nominal implied interest rate (i.e. a continuation of current market rates at their current levels over the next six years) would bring the debt to around 131 per cent of GDP in 2036 (compared with 122 per cent without a shock²³), whilst a rise of 200 basis points – a more pessimistic scenario, linked to a loss of investor confidence – would push this figure up to nearly 142 per cent (see Figure 7).

This divergence highlights the high sensitivity of US federal debt to interest rate levels.

²³ Note: Federal debt held by the public differs from gross federal debt in that it only takes into account the federal government's financial obligations to external creditors, thereby excluding intra-governmental debt. This difference explains the discrepancy in debt levels between the CBO's figures and those of the IMF.

Figure 7 – US debt held by the public under different increases in the implied nominal interest rate, as a percentage of GDP

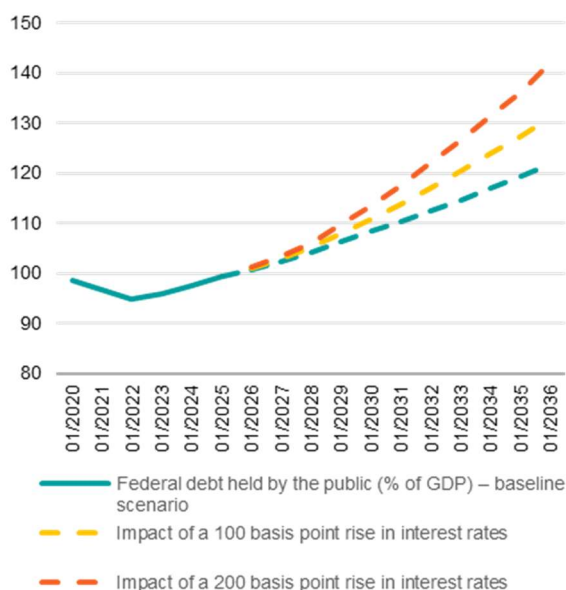
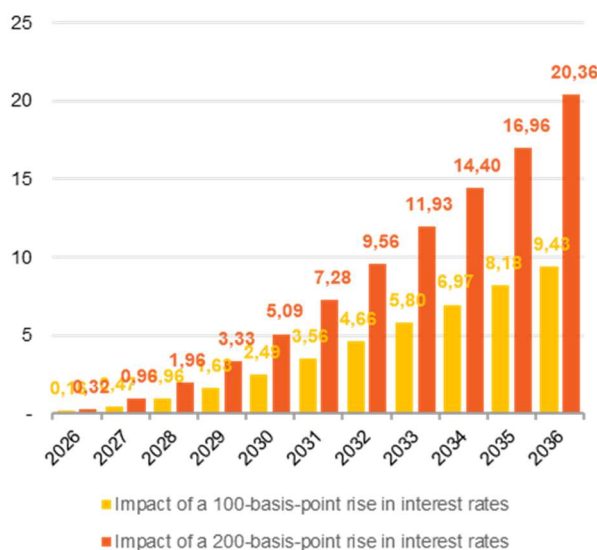


Figure 8 – Difference in US debt levels compared with the scenario assuming no rise in implied nominal interest rates, as a percentage of GDP



Source: CBO, GSA calculations

2.2. Inflationary pressures, resulting in part from the war in Iran, and the erosion of the Fed's credibility are also contributing to the rise in rates

Inflationary pressures, due in part to increased uncertainty and the consequences of the war in Iran, are also contributing to the rise in the cost of financing US debt. Investors are demanding a higher return to hedge against the risk of persistently high inflation, which is likely to keep short-term interest rates at a high level.

Whilst it is true that inflation remains far from the peaks of 2021 – a period when it exceeded the 9% mark on an annualised basis, driven by Covid-19 stimulus packages and the accommodative monetary policy pursued at the time by the Federal Reserve (Fed) – **the ongoing conflict with Iran, combined with high energy prices, has contributed to keep year-on-year inflation at 3.4 per cent in July²⁴.** Even when energy and food are excluded from the calculation, the figure stands at 2.5 per cent, **which is above the 2 per cent target set by the US central bank. Inflation has remained above the Federal Reserve's target for five years²⁵.**

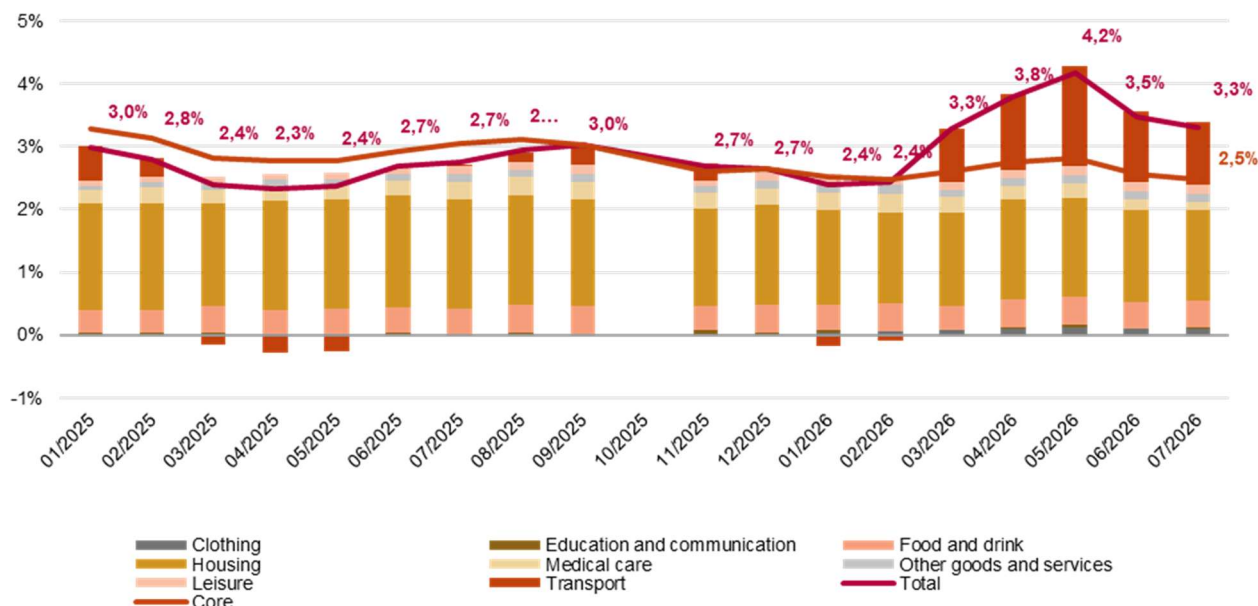
However, the economic statistics published in recent days **appear to have somewhat eased the pressure on Fed officials regarding a possible rise in short-term interest rates in the coming months.** Core inflation, released last week by the Bureau of Labour Statistics, slowed in July; US retail sales recorded their sharpest decline in over a year. Finally, the latest employment report showed that US companies had, unexpectedly, cut their workforce in July²⁶.

²⁴ [In the United States, demand for capital for AI and defence is triggering the onset of a debt crisis](#), *Le Monde*, 20 August 2026

²⁵ [US Bond Selloff Drives 30-Year Yields to Highest Since 2007](#), *Bloomberg*, 17 August 2026

²⁶ [US Bond Selloff Drives 30-Year Yields to Highest Since 2007](#), *Bloomberg*, 17 August 2026

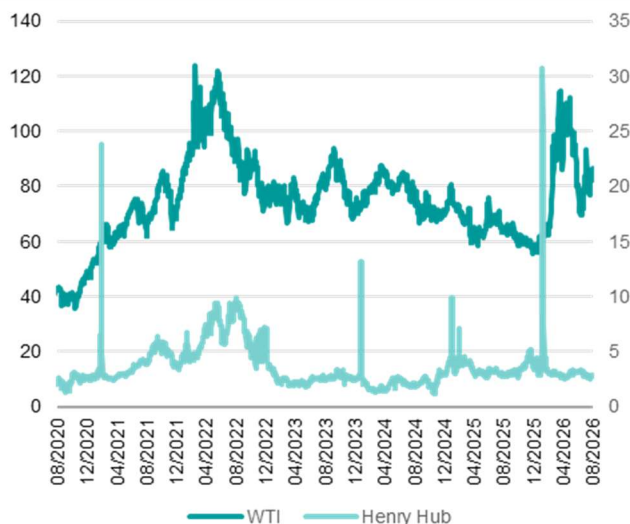
Figure 9 – Breakdown of the Consumer Price Index (CPI) in the US



Source: US Bureau of Labour Statistics

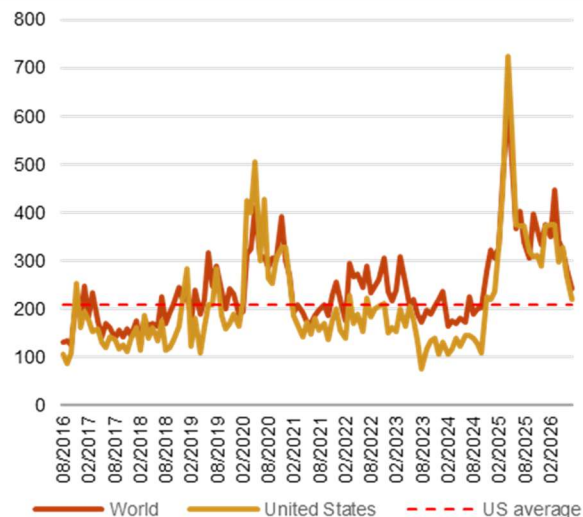
The Fed chose to leave interest rates unchanged at its July meeting, a decision that prompted three dissenting votes within the committee – a rare occurrence at the first committee meeting under a new chair²⁷. **Reports have also revealed that he maintains regular contact with President Trump, thereby appearing to depart from the institution's tradition of independence²⁸.**

Figure 10 – Trends in oil prices (left-hand scale, \$/bbl) and gas prices (right-hand scale, \$/MMBtu)



Source: EIA

Figure 11 – Trends in global and US uncertainty



Furthermore, Kevin Warsh has initiated a change in the Fed's communication strategy, aimed at making it more concise and characterised in particular by the abandoning of explicit 'forward

²⁷ [The credibility of the US Federal Reserve, the world's most powerful financial institution, is at stake](#), *Le Monde*, 24 August 2026

²⁸ [In the US, demand for capital for AI and defence is triggering the onset of a debt crisis](#), *Le Monde*, 20 August 2026

guidance'. This shift resulted, in June, in the publication of an FOMC statement reduced to less than half the length of the last text chaired by Jérôme Powell²⁹, favouring a more concise and factual format and removing forward-looking guidance on the direction of interest rates. Kevin Warsh also chose not to contribute to *the 'dot plot'*, which sets out the individual interest rate projections of FOMC members, whilst maintaining its publication for the other members of the Committee.

This reduced communication reflects an approach that is more firmly grounded in available data and decisions taken on a meeting-by-meeting basis. It increases the Fed's room for manoeuvre by limiting forward guidance, but in return reduces the visibility offered to investors and could increase the volatility of interest rate expectations and financial markets.

The minutes of the Federal Reserve's latest monetary policy meeting, published on Wednesday 19 August, **also showed that concerns about inflation had intensified**, with "several" policymakers appearing ready to raise interest rates and "many" others believing that a rise in interest rates would be necessary if inflation did not fall back towards the central bank's 2% target³⁰.

Against the backdrop of this erosion of the Fed's credibility and the resulting internal divisions, **the Fed Chair's traditional address at Jackson Hole** on Friday 28 August, during the institution's summer symposium, **was eagerly awaited**. Especially since his previous press conference – during which he offered little justification for keeping rates unchanged, avoided any mention of a rise in the coming months and suggested that the Fed's inflation target might be revised in January³¹ – **provoked a strong reaction on the financial markets, notably a sharp rise in interest rates on long-term US debt**³². During his speech at Jackson Hole, **K. Warsh therefore reiterated the Fed's commitment to bringing inflation back to 2 per cent** – which he described as firm and fixed target – whilst pointing out that financial conditions were not currently restrictive³³.

Against this backdrop, Kevin Warsh has also set up five working groups focusing, in particular, on communication, balance sheet management, the use of data and the inflation-targeting framework³⁴. This review should enable the Fed to enhance the effectiveness of its actions, but it is, for the time being, increasing the uncertainty surrounding its future direction³⁵.

Furthermore, K. Warsh wishes to reduce the central bank's balance sheet, which currently comprises some \$4,540 billion in Treasury bills. However, if the US government genuinely wishes to lower borrowing costs, **the most sustainable and effective approach is through the Fed's quantitative easing** – a tool to which the new Fed chair had opposed in the early 2010s and which he has continued to criticise since³⁶.

An empirical study examining the impact of changes in the supply of US Treasury debt³⁷ **shows that these changes lead to a rise in long-term interest rates, which are then passed almost entirely to corporate borrowing costs** and, through a contraction in investment, cause a decline in industrial output. **This effect is comparable to that of a conventional monetary tightening**, with the difference that it affects short-term rates only marginally. Such a mechanism **could thus, paradoxically, produce a disinflationary effect and pave the way for a future easing of short-term rates** – a prospect that would be in line with President D. Trump's expectations.

²⁹ Federal Reserve, *Transcript of Chairman Warsh's Press Conference*, 17 June 2026.

³⁰ [Bond relief ebbs, shares mixed as investors question the Treasury's rescue efforts](#), *Reuters*, 20 August 2026

³¹ [Bessent Has No Easy Fix for What's Really Driving Yields Up](#), *Bloomberg*, 23 August 2026

³² [The credibility of the US Federal Reserve, the world's most powerful financial institution, is at stake](#), *Le Monde*, 24 August 2026

³³ [Warsh Says Inflation Isn't Slowing, Vows to Reach 2% Target](#), *Bloomberg*, 28/08/2026

³⁴ [Federal Reserve Board – Federal Reserve announces the leadership and objectives of its task forces to advance the conduct of monetary policy](#), *Board of Governors of the Federal Reserve System*, 9 July 2026

³⁵ [Trump reopens Fed battle at a critical time for bond markets](#), *Reuters*, 11 August 2026

³⁶ [Bessent Has No Easy Fix for What's Really Driving Yields Up](#), *Bloomberg*, 23 August 2026

³⁷ [The Treasury Does Monetary Policy by Hiroaki Endo, Kevin Pallara, Massimiliano Sfregola, Luca Zanotti](#), SSRN, 9 March 2026

2.3. Demand for US debt weakened due to competition from private sector financing needs and a possible withdrawal of Japanese investment

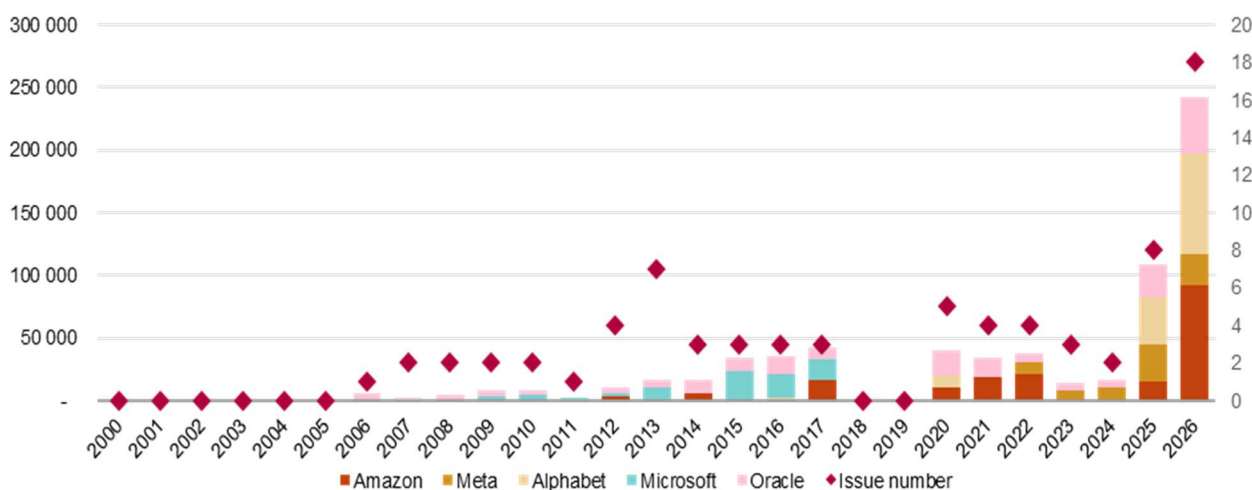
2.3.1 The financing needs of major technology groups to develop artificial intelligence compete with Treasury bonds

US Treasury bonds face competition from private sector funding needs, which are rising due to the investment race launched by major technology groups to build the data centres required for the development of artificial intelligence. A recent illustration of this trend: OpenAI has signed an agreement to build data centres in Ohio with a capacity of 10 gigawatts – equivalent to the electricity output of ten nuclear reactors – a project for which Nvidia will provide \$105 billion in financing³⁸.

As a result of these funding requirements, **bond issues skyrocketed in 2026, both in terms of number– 18 issues** by the end of August 2026 for the sector's five major companies, compared with 8 for the whole of 2025 and 2 in 2024 – **as in value** – nearly \$250 billion issued in 2026 to date, compared with just over \$100 billion the previous year (see Figure 12). By way of comparison, **over the first seven months of the year, the US Treasury issued \$2,877 billion in bonds, with maturities ranging from 2 to 30 years**, including \$300 billion in 20- and 30-year maturities.

According to a Wall Street Journal investigation, **Alphabet, Meta, Amazon and Microsoft no longer generate enough cash to fund their financing requirements on their own**. Together, with combined debt totalling \$356 billion, they have entered into \$248 billion worth of contracts for computing capacity and electricity, as well as \$2,400 billion in purchase and investment commitments that have not yet been recognised³⁹. **They must therefore turn to the bond market, where their issues compete with those of the US Treasury and thus contribute to the rise in yields demanded by investors.**

Figure 12 – Bond issues by leading companies investing in artificial intelligence, by value (left-hand axis, millions of dollars) and by number (right-hand axis)



Source: LSEG

Added to this is the cost of repatriating part of US production capacity, a move undertaken to reduce the vulnerabilities exposed during the Covid-19 pandemic, notably dependence on China⁴⁰.

³⁸ In the US, demand for capital for AI and defence is triggering the start of a debt crisis, *Le Monde*, 20 August 2026

³⁹ In the US, demand for capital for AI and defence is triggering the start of a debt crisis, *Le Monde*, 20 August 2026

⁴⁰ In the US, demand for capital for AI and defence is triggering the start of a debt crisis, *Le Monde*, 20 August 2026

2.3.2 Japanese demand for US debt could decline as a result of the Bank of Japan's accelerated monetary tightening and the need to sell part of its dollar holdings to intervene in the foreign exchange market

Another cause for concern is Japanese investors' waning appetite for US debt, which is reducing demand and pushing up US bond yields.

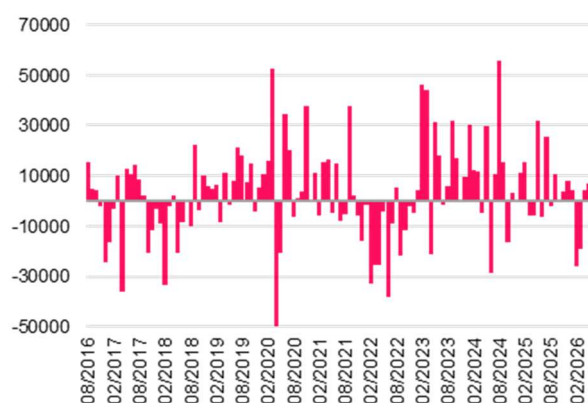
According to US Treasury data, Japanese holdings of US Treasuries fell to \$1,116 billion in June, a 2.3 per cent drop from May's level of \$1,143 billion and a 16 per cent decline from the peak in November 2021. Furthermore, following significant net outflows in February and March 2026 (–25,831 and –19,209 hundreds of millions of Japanese yen respectively), flows recovered briefly in April and May **before falling back into negative territory in June (–9,674)**, reflecting a pullback by Japanese investors from US government bonds.

Conversely, Japanese balance of payments data – which excludes changes in foreign exchange reserves and tracks only investor portfolio flows – show that net purchases are continuing. However, this pace of accumulation is tending to slow: the Bank of Japan's (BoJ) cautious normalisation of monetary policy – with rate rises approximately every six months – is keeping the yen weak, fuelling inflation expectations and pushing up Japanese long-term rates, whilst persistently low short-term rates are increasing the cost of currency hedging and eroding the net yield on US bonds for Japanese investors. Once hedged against currency risk, Japanese government bonds now offer a higher yield than US Treasuries, which reduces the appeal of exposure to US assets. **The real risk for US debt therefore lies not in a decline in net portfolio flows, but in the possibility of an acceleration in the BoJ's monetary tightening⁴¹.**

Figure 13 – Value of US debt held by Japanese investors (billions of USD)



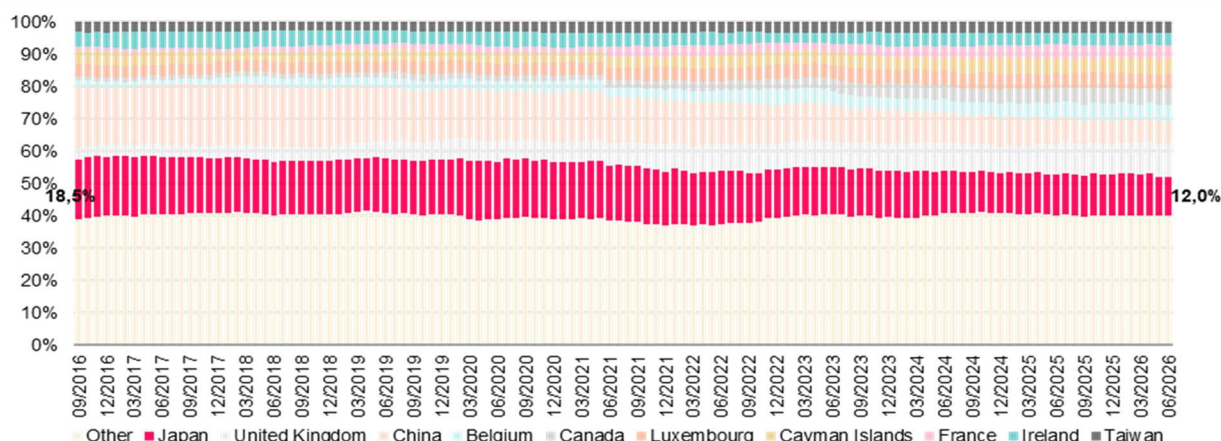
Figure 14 – Trend in Japanese net portfolio flows into US government bonds (hundreds of millions of Japanese yen)



Source: LSEG

Furthermore, Japan is the largest non-US holder of Treasury bills, which heightens the risk of reduced demand should Japanese investors decide to reassess their positions regarding of US debt. The long-term trend is, in fact, downward: over the past twenty years, the share of US debt held by Japanese investors as a proportion of total US debt held by non-US investors has fallen by 6.5 percentage points.

⁴¹ Japan: private investors are still buying US Treasuries, Natixis, 21 August 2026

Figure 15 – Changes in the breakdown of US debt held by foreign investors

Source: Bloomberg

Furthermore, on 31 July, the US Treasury, alongside the Japanese financial authorities, carried out a joint and unexpected intervention in the foreign exchange market aimed at supporting the yen – a move particularly noteworthy as it was the first US action in support of the Japanese currency since 1998⁴².

The yen had lost around 4.6 per cent of its value against the dollar since the previous intervention, carried out solely by Tokyo in the spring. Japan thus mobilised some \$87 billion from its foreign exchange reserves during the last two days of July to prop up its currency. **Washington intervened with a limited financial contribution but sent a strong signal of political support**⁴³.

The Treasury's involvement is largely due to the dollar's central role as a global reserve currency. Massive sales of Treasury bonds by a major player such as Japan could destabilise this market and push up borrowing rates. **By participating in the purchase of yen, the United States is therefore enabling Tokyo to reduce its need for intervention and, in doing so, to limit the sales of US Treasury securities that such an operation would otherwise have necessitated**⁴⁴.

2.4. A rise in interest rates exacerbated by the structural shift in the profile of US bondholders

Historically, the strength of many bond markets has relied largely on purchases of long-term securities by pension funds, keen to match these assets against their long-term liabilities to their beneficiaries. However, this support is now waning: pension funds are gradually moving away from defined-benefit schemes, whilst the regulatory framework is now encouraging them to shift their investments more towards equities⁴⁵.

Furthermore, the minutes of the Federal Reserve's June monetary policy meeting reveal that its members were informed of a gradual shift in the investor base for Treasury bills: institutional holders, who are traditionally insensitive to price fluctuations, are gradually being replaced by private investors who are more responsive to market conditions. This shift in the holder structure, observed over the last decade, **would in itself account for around 90 basis points of the term premium on 30-year US bonds**⁴⁶.

⁴² [In trying to prop up the yen, the US wants to have its cake and eat it too](#), *PIIE*, 11 August 2026

⁴³ [In trying to prop up the yen, the US wants to have its cake and eat it too](#), *PIIE*, 11 August 2026

⁴⁴ [In trying to prop up the yen, the US wants to have its cake and eat it too](#), *PIIE*, 11 August 2026

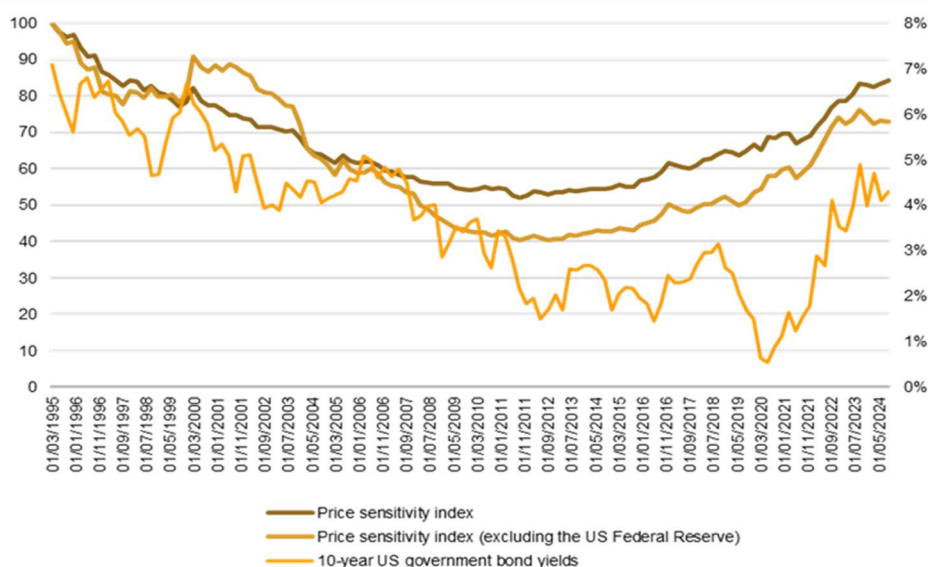
⁴⁵ [Long-Term Debt Costs Soar to Highest in Decades as Bonds Slump](#), *Bloomberg*, 18 August 2026

⁴⁶ [Long-Term Debt Costs Soar to Highest in Decades as Bonds Slump](#), *Bloomberg*, 18 August 2026

Consequently, the profile of US Treasury bond holders has shifted from price-insensitive investors to price-sensitive investors, which is exerting upward pressure on yields⁴⁷. Indeed, since mid-2011 and particularly since 2016, the price sensitivity of demand from investors holding US bonds has been increasing, rising from **52** in 2011 to **84** by the end of 2024 (see Figure 16).

Whilst, between 1995 and 2011, the proportion of Treasury bills held by players who were less responsive to price movements – such as the Federal Reserve or certain central banks and foreign sovereign wealth funds – had increased, reducing the market's overall sensitivity to prices and helping to drive down yields; the recent restructuring of the market now requires higher yields to attract buyers. These new investors, who are more responsive to changes in bond yields, include pension funds, insurers, banks and various investment funds, thereby increasing the volatility of US government bond yields⁴⁸.

Figure 16 – Index summarising the trend in the price sensitivity of investor demand for US Treasury bills, with and without the Federal Reserve (left-hand axis) and the yields on 10-year US government bonds (right-hand axis)



Source: Federal Reserve Bank of Kansas City

Box: Emerging markets remain dynamic despite increased volatility and rising US rates

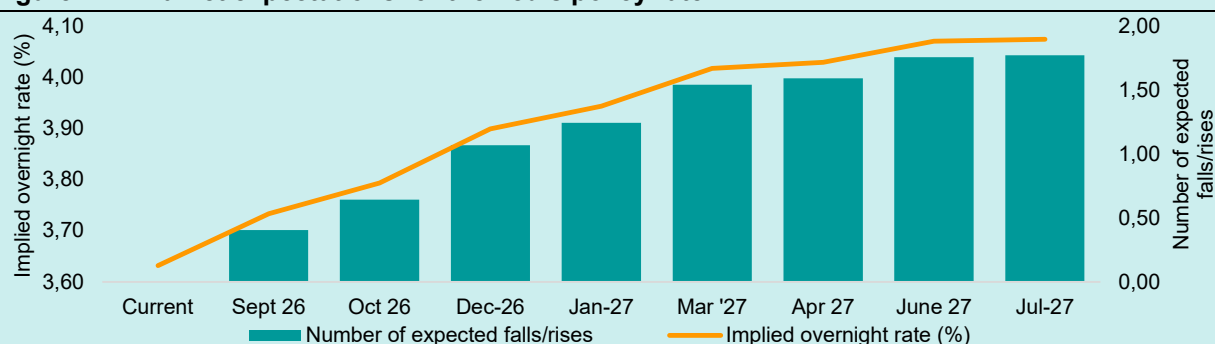
As of 24 August, market participants assign a probability of around 40.4 per cent to a 25-basis-point rate rise in September. This estimate confirms that the scenario of short-term rate cuts, which was still dominant at the end of 2025, has been replaced by a distribution centred on the status quo and tilted towards the risk of tightening.

Beyond the September meeting, the markets are anticipating a rise in rates by the end of 2026. The implied rate is set to rise from around 3.6 per cent at present to 3.9 per cent in autumn 2026, then to 4.1 per cent in summer 2027, representing a cumulative tightening of nearly 50 basis points (see Figure 17).

⁴⁷ *Charting the Economy*, Federal Reserve Bank of Kansas City, 2 July 2025

⁴⁸ *Charting the Economy – Federal Reserve Bank of Kansas City*, Federal Reserve Bank of Kansas City, 2 July 2025

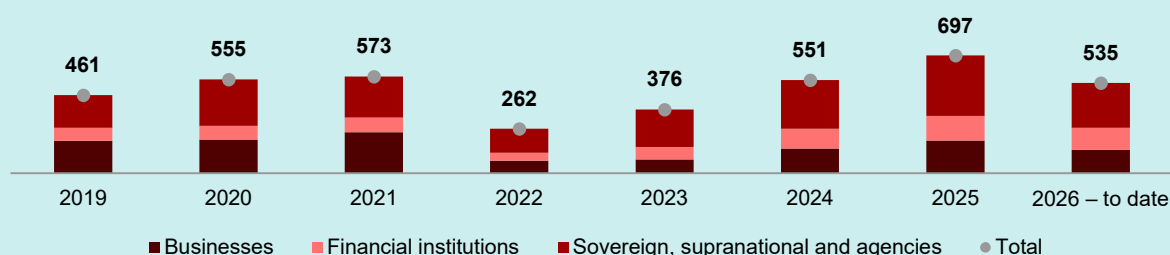
Figure 17 – Market expectations for the Fed's policy rate



Source: Bloomberg, as of 25 August 2026

Despite these expectations, the primary market for emerging market Eurobonds remained largely open in 2026, with issuance volumes exceeding those recorded over the same period in 2025. By the end of July 2026, international issuance had reached USD 513 billion since the start of the year, compared with USD 444 billion over the same period in 2025, representing an increase of around 16 per cent (see Figure 18). This momentum follows on from 2025, a year characterised by particularly strong growth (total issues of USD 697 billion).

Figure 18 – Issuance volume on the primary market for emerging market Eurobonds⁴⁹ by year, since 2019 (USD billion)



Source: BondRadar, as of 25 August 2026

The start of 2026 confirmed the market's ability to absorb significant volumes, despite a temporary period of caution following the shock in the Middle East. Activity quickly picked up again, before slowing down again during the summer, a period traditionally less active on the primary market.

However, the rise in US benchmark rates is a negative factor for emerging markets' financing conditions. The rise in US Treasury yields automatically increases the cost of new USD-denominated issues via the base rate component, regardless of changes in each issuer's specific credit risk. Increased volatility in the US yield curve also reduces visibility on execution costs.

Emerging market risk premiums, on the other hand, have remained close to their historic lows, largely offsetting the effect of the rise in base rates. This resilience reflects, in particular, the improvement in the fundamentals of many issuers – the result of structural adjustments and reforms undertaken in recent years – as well as investors' appetite for assets offering diversification away from US markets. This interest is also reflected in fund flows: emerging market debt funds have recorded net inflows of USD 30.3 billion since the start of the year.

⁴⁹ Note: Excluding China.