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21st August 2026

US bond markets have reached a pain threshold. The US Treasury's bond buyback plan is unlikely to drag yields lower significantly. Will the Fed help in capping yields? Chair Warsh's speech at Jackson Hole will be in focus. Prefer short-to-medium maturity bonds and stay bullish on gold and equities.

Bond yields reach a pain threshold

The US Treasury's plan to "at least" double buybacks of 10-30-year bonds suggests bond yields have reached a pain threshold for the Trump administration. However, the move looks modest and unlikely to drive bond yields significantly lower. The fundamental drivers of higher bond yields are rising US debt and monetary policy uncertainty due the Warsh-led Fed's abandoning of forward guidance on rates. A deluge of bond issuance from the AI hyperscalers has fuelled the fire.

Will Warsh ease the bond market pain

While US debt remains on course to rise further as defence spending increases, there's scope for the Warsh-led Fed to ease some of the monetary policy uncertainty by clarifying on the central bank's policy stance – specifically, how long it is willing to remain patient and keep rates on hold to see inflation return back to its 2% target. All eyes will be on Chair Warsh's speech at the Fed's Jackson Hole summit for a signal, if not forward guidance.

Investment strategy

Long bond yields to be rangebound and shorter-to-medium maturity bonds are likely to benefit from continued disinflation and a softening job market. The USD could see further downside as the Treasury proposal, which follows earlier intervention to weaken USD/JPY, suggests a desire for a softer USD. A softer USD is likely to sustain the ongoing gold rally. Rangebound bond yields, as opposed to rising yields, should generally be positive for equity valuations. From a sector perspective, gold miners should benefit from the rise in gold prices.

More bullish on AI outlook

Beyond the impact of bond yields, confidence in equities remain underpinned by solid corporate fundamentals after yet another stellar earnings season. AI capex is expected to grow 85% y/y in 2026 to USD 750bn, before reaching USD 1tn in 2027. Long-term assumptions expect AI capex to grow at a 33% CAGR over 2025-30, up from our previous estimate of 32%. This is bullish for equities, especially in the US technology and communications services sect.

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