The Temperamental Era Hits the Bond Market

- Global bond yields have risen to multi-decade highs on geopolitical risk, a less predictable Fed, and heavy debt supply.
- Higher yields don't break the case for owning bonds. Instead, they make the entry point more attractive.
- We view this selloff as a chance to rebalance into bonds at income levels we haven't seen in years.

We're in the Temperamental Era and bonds are the ones having the tantrum. The Temperamental Era is our term for a market that trades on headlines, not trends. It occurs where geopolitics, Fed uncertainty, and thin liquidity whipsaw prices day to day even when the underlying fundamentals haven't changed.

Global yields have risen dramatically and not just here domestically. The 10-year Treasury yield recently reached its highest level in 19 months, near 4.75%, and the 30-year is sitting above 5.3%, which is a level we haven't seen since 2007. The story is the same overseas as German bunds are at 15-year highs, French OATs haven't yielded this much since 2008, and Japanese 10-year yields are at multi-decade highs. This jump in yields is not just a U.S. story, but instead it is a global repricing.

Driving this repricing has been primarily three factors, which are pulling in the same direction:

- **Geopolitics**. Renewed friction around the Strait of Hormuz and stalled U.S.-Iran talks have pushed Brent crude oil back above $90 a barrel. Energy shocks feed straight into inflation expectations, and inflation expectations feed straight into long-end yields.
- **The Fed's No Forward Guidance**. In the past, the Fed would signal its next move ahead of time, and markets would calm down and wait. New Chair Kevin Warsh has deliberately stopped doing that. It's a trade-off: the Fed gains flexibility, but investors lose the road map. So now, every economic report, every inflation print, every headline forces the market to guess on its own and each guess shows up as a bigger swing in yields, across the curve. That's the Temperamental Era in a nutshell: headline-driven, not trend-driven.
- **Rising Supply**. Heavy government issuance across the U.S., France, and the UK, layered on top of a wave of corporate debt hitting the market in thin August trading, means more supply and, since yields move inversely to price, the consequence is higher yields.

For your investment portfolios, rising yields are just a repricing and not a reason to abandon the asset class. Bonds continue to hold their place in a portfolio as they provide potential diversification against stock market risk and income. That hasn't changed. Instead, what has changed is the price you're paying to get it.

Think of it this way: if you were shopping for a car and the sticker price just dropped 15%, you wouldn't call that bad news. Instead, you would call it an opportunity to buy. Bond prices and yields move inversely, so a rising yield is in essence a discount. For investors who hold to maturity, that higher yield is locked in regardless of near-term price swings.

With that said, here are a few reasons we are constructive and not scared at these yield levels:

- **Income is Back**. A starting yield of 4.7% to 5.3% on high-quality government debt is a very different proposition than the near-zero world we witnessed a few years ago. Higher starting yields have historically been one of the best predictors of forward returns in fixed income.
- **High Yields Self-Correct**. At a certain point, elevated yields slow the economy and cool inflation on their own. That's a self-correcting mechanism worth remembering when the headlines feel one-directional.
- **This Fits Our Broader "Cautious, Not Bearish" Positioning**. With equities near record highs and valuations elevated, higher-quality bonds bought at better yields give us a way to rebalance by trimming stretched winners and redeploying into an asset class that pays you to wait.

Rising yields feel uncomfortable in the moment as nobody likes seeing bond prices fall. But discomfort and opportunity often look identical in the moment. We're using this move to rebalance into fixed income at yields we haven't seen in years, not running from it. Stay diversified, stay disciplined, and remember: in the Temperamental Era, the best returns usually go to those who buy the mood swing, not the ones who react to it. Please contact your Cetera financial professional for more information.

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