Long-end U.S. Treasury yields: What's going on?

Anthony Karaminis, CFA

Head of sub-advised fixed income

The long end of the U.S. Treasury curve has re-emerged as one of the market's key pressure points. Since the start of the quarter, the 30-year Treasury yield has climbed roughly 30 basis points (bps, 1 bps = 0.01%) to move decisively above 5%; yields now sit more than 60 basis points above their late-February lows. The rise reflects a combination of persistent inflation, resilient growth, limited policy guidance from a new Federal Reserve (Fed) Chair, elevated fiscal deficits, and an expanding supply of both government and corporate debt. Together, these forces are prompting investors to demand a higher term premium in the U.S. and globally.

Why are yields moving higher?

A move in Real Yields, Persistent inflation and the Fed's Next Move

The move higher in 30-year nominal Treasury yields has been driven by increases in both real yields and inflation expectations. Rising real yields reflect a market reassessment of the long-term economic outlook, with investors pricing stronger growth, a potentially higher neutral interest rate, and a less accommodative path for future Fed policy. At the same time, with inflation remaining above the Federal Reserve's 2% target for five consecutive years, investors have become increasingly skeptical of the central bank's willingness to bring price pressures fully under control. Newly appointed Fed Chair Kevin Warsh initially helped ease concerns during his inaugural press conference in June, where Mr. Warsh emphasized that the Fed's commitment to restoring price stability was "strong, unanimous, and unambiguous." Markets interpreted these remarks as a signal that controlling inflation would remain the Fed's overriding priority.

Confidence, however, faded quickly. At his second press conference in July, the market's focus shifted from what Chairman Warsh said, to what he left unsaid. While he reaffirmed the Fed's commitment to price stability, he stopped short of outlining the circumstances under which policymakers would further tighten policy. The lack of guidance came at a challenging time, with economic data generally surprising to the upside and inflation persisting above target. Against a backdrop of political pressure for lower interest rates, investors have begun to question whether the Fed's actions will ultimately match the Chairman's rhetoric; this despite three regional presidents dissenting in favor of an immediate hike.

Debts, deficits, and footing the bill

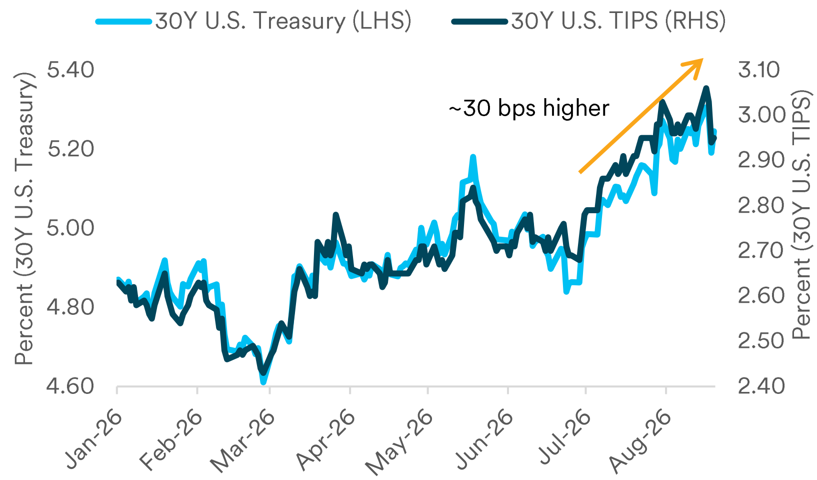
The U.S. federal government continues to run a budget deficit of approximately 6% of gross domestic product (GDP), contributing to a record level of federal debt that has recently surpassed $40 trillion.

This amounts to a debt-to-GDP ratio of approximately 125%; a level that is historically high by both U.S. and global standards. Combined with elevated interest rates, the cost of servicing this debt has risen to roughly $1.2 trillion annually. Interest expense is now the second-largest expenditure of the U.S. federal government, trailing only Social Security and exceeding spending on Medicare. This highlights the growing fiscal burden associated with persistent deficits and rising debt levels.

Markets are becoming increasingly concerned about the U.S. government's future funding requirements and the implications for U.S. Treasury issuance. This is despite the Treasury generally protecting the backend of the curve by keeping coupon issuance relatively stable in recent times. As a result, investors are increasingly focused on the market's capacity to absorb additional Treasury supply. According to estimates from J.P. Morgan, the U.S. Treasury is already facing a funding gap, reinforcing concerns that borrowing needs and debt issuance may remain elevated well into the future.

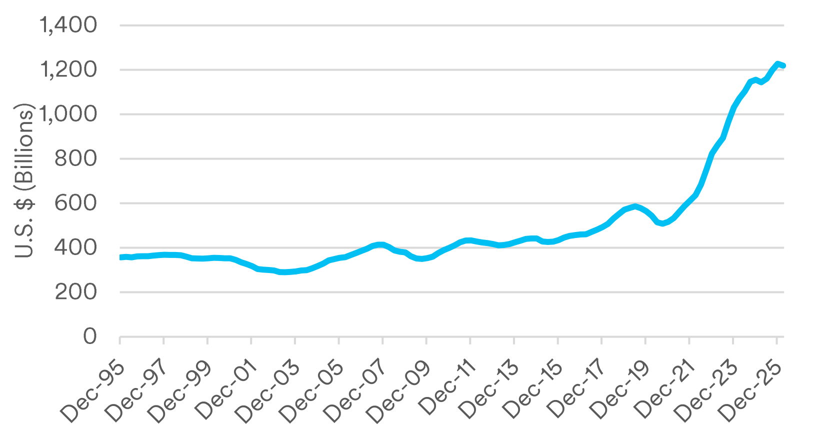
While the U.S. debt burden has continued to rise, the U.S. economy has benefitted from expanded fiscal spending in the form of elevated nominal growth and below average unemployment.

Exhibit 1: Yield on 30-Year U.S. Treasurys



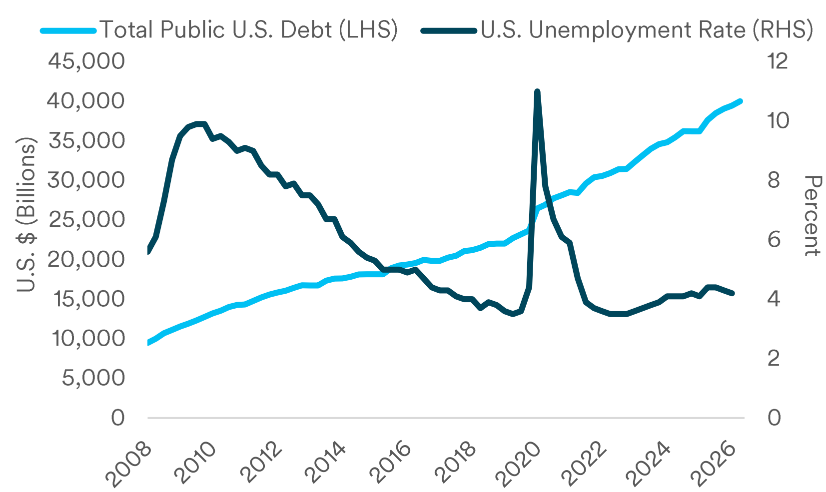
Source: Bloomberg, SEI. Data as of August 20, 2026.

Exhibit 2: Interest expense



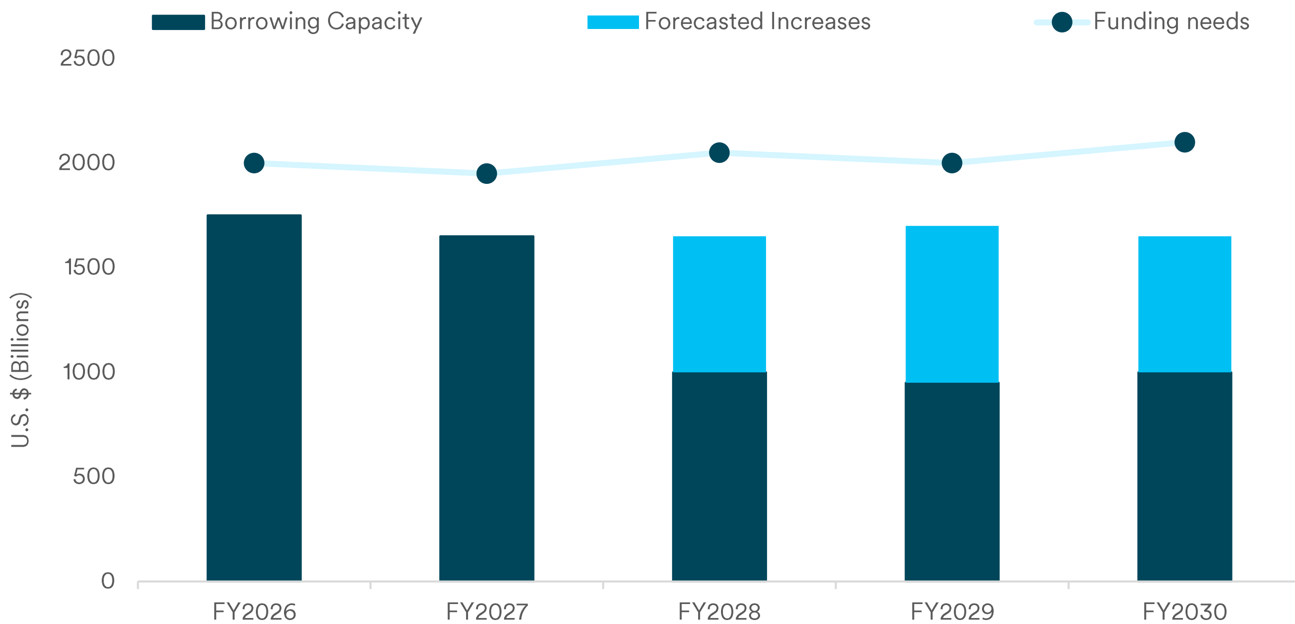
Source: Bloomberg, U.S. Treasury, SEI. Data spans December 31, 1995, to March 31, 2026. Bloomberg, US Treasury.

Exhibit 3: Total public U.S. debt and unemployment



Source: Bloomberg, SEI. Data spans March 31, 2008, to August 19, 2026.

Exhibit 4: Estimated U.S. Treasury funding gap

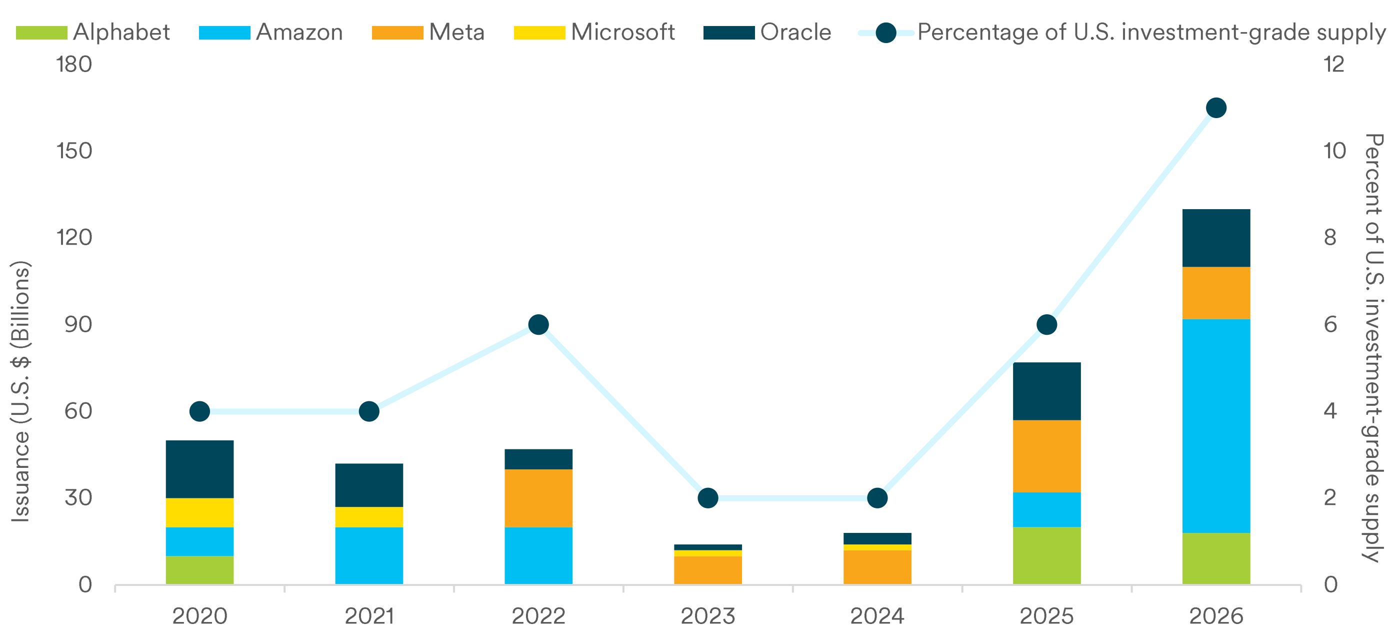


Source: J.P. Morgan, SEI. Data as of July 31, 2026.

AI hyperscalers in hyperdrive

While not a primary driver of the recent increase in long-term Treasury yields, the surge in debt issuance by large technology companies—particularly AI hyperscalers such as Alphabet, Amazon, Meta, Microsoft, and Oracle—may be contributing to upward pressure on yields at the margin. More so than traditional corporate issuers, hyperscalers have shown a strong preference for issuing debt at longer maturities, with 30-year bonds accounting for more than 30% of total long-end investment-grade issuance year-to-date.

Exhibit 5: Hyperscaler debt issuance



Source: J.P. Morgan, SEI. Data as of 7/31/2026.

While the U.S. Treasury market remains substantially larger than the investment-grade corporate bond market at $11.7tn, elevated issuance from hyperscalers can influence investor demand as investors evaluate allocations between Treasuries and similarly high-quality corporate securities offering additional compensation.

Why does it matter if yields move higher?

The recent rise in 30-year U.S. Treasury yields has important implications for both the real economy and financial markets, as higher long-term interest rates may increase borrowing costs for governments, corporations, and households, potentially weighing on investment, consumption, and economic growth.

Elevated yields also have an impact on bond prices, which move inversely to yields. Equity markets may also face headwinds, as higher risk-free rates increase discount rates used in equity valuation models. This is a particular headwind for growth-oriented stocks as their profits are largely expected to be further in the future and therefore more sensitive to higher rates.

Beyond their impact on financing costs and asset prices, movements in the 30-year Treasury yield serve as an important barometer of investor confidence in the long-term outlook for inflation, fiscal policy, and economic stability.

Bessent attempting to steady the bond market

On August 19, U.S. Treasury Secretary Scott Bessent surprised markets by announcing an increase in the size of the Treasury's buyback operations for longer-dated nominal U.S. government bonds. Beginning September 9, the Treasury will increase the maximum size of these operations from $2 billion to at least $4 billion, resulting in an estimated additional $14 billion of purchases during the current refunding quarter. The purchases will be concentrated in the 10- to 20-year and 20- to 30-year segments of the Treasury market. The announcement resulted in long-end yields falling by 9 bps and the broad yield curve flattening by a similar amount.

While the magnitude of the program remains modest relative to the overall Treasury market, the decision signals a growing recognition by policymakers of the challenges associated with financing large fiscal deficits in an environment of higher interest rates. The market is now watching closely to see whether the U.S. Treasury will step up its intervention efforts and what other measures will be deployed if long-end yields retest recent highs.

Current positioning

SEI currently maintains yield curve steepener positions across several portfolios. These positions are designed to benefit from higher yields at the long end of the curve relative to those at the short end. In contrast to the Fed's quantitative easing program, the U.S. Treasury cannot create money to enact new purchases. Instead, the recently announced increase in long-dated Treasury buybacks must be financed through adjustments to the government's funding program, with a likely increase in issuance of short-dated securities. The extent of the Treasury's willingness to intervene further remains uncertain, despite recent reports suggesting it may expand buyback operations through its Treasury General Account. If the Treasury chooses to utilize its full toolkit and do so at meaningful scale, it could influence yield curve dynamics going forward. Such technical factors present the possibility to work against a yield curve steepener position, all else equal. While we have maintained our yield curve steepener positions to date, they remain under scrutiny as we assess whether Treasury actions can reverse the recent move in long-end yields or merely moderate the pace.

GLOSSARY AND INDEX DEFINITIONS

For financial term and index definitions, please see: https://www.seic.com/ent/imu-communications-financial-glossary

IMPORTANT INFORMATION