FIRST CAPITAL FINANCIAL

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Sponsoring Mutual Fund Dealer



2026.10.07

Some investors are still looking to make sense of the recent rise in US Treasury yields. We recently threw some cold water on the narrative of a sudden worsening in the US's fiscal circumstances. But it's also helpful to have a global context for these yields.

Interest rates have been on the rise for most major sovereign issuers in recent years. In fact, the uptick in the US since January 2025 has been less dramatic than in Japan and France.

Bond yields are influenced by supply and demand. When supply increases versus demand, yields must go up to attract additional capital. The global yield data doesn't make a case that US bonds are waning in desirability versus those of other countries.

This is not to say everyone should be fixated on attaining yield. Higher yields come with duration risk (the longer a bond's maturity, the more susceptible the price of the bond is to changes in interest rates). This risk is inversely proportional, so rising rates will negatively impact the par value of longer term government bonds.

Understandably, investors who are concerned about bond volatility may wish to allocate to shorter duration portfolios that have less acute price impact from rate changes. The natural holders of long-dated bonds, who may be less sensitive to the impact of rate movements, can enjoy the higher rates these bonds have to offer.

The insatiable demand for debt (and the corresponding rise asked by investors) is a function of fiscal spending wildly in excess of what the tax base of Developed Countries can support. Voters and politicians alike pretend that mounting government debt isn't a problem. But everywhere, interest payment now crowd out other government programs. Here in Canada, annual interest on our nation's debt is approximately $100B CAD. This is more than Old Age Security, the most expensive government program at $83B CAD and ahead of the Canada Health Transfer, the Canada Child Benefit and Equalization. [1]

This can continue for a while yet, but structurally something has to change and sooner than later. Borrowing is a transfer of lifestyle from the future to the present. By borrowing we are therefore enjoying the fruits of tomorrow today, while this suggests that there will be less later when governments are forced to reduce spending to avoid going over the fiscal cliff.

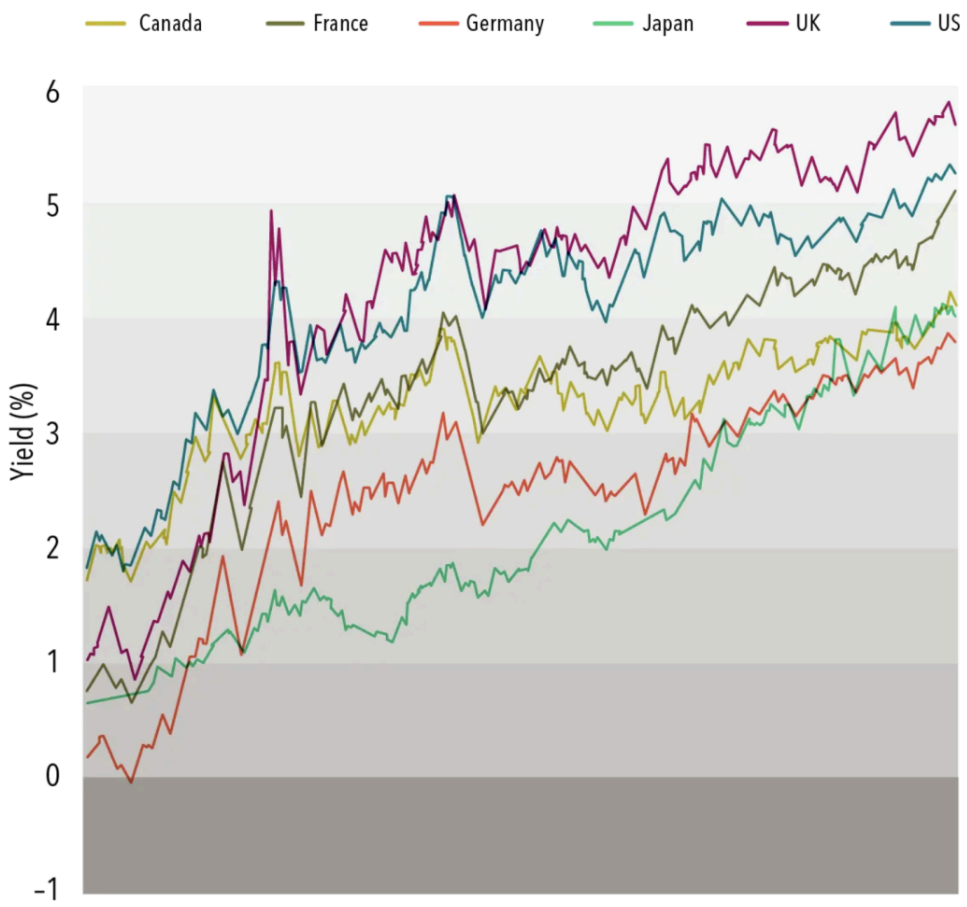
Thanks for reading!

Martin

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30-Year Sovereign Yields

September 1, 2021–September 22, 2026



Dimensional, 2026

1. The Economist, 2026

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