Short Term Breather Ahead for the Stock Market? The Sequel!
July 27, 2026

Sequels are rarely as good as the first production, but I'm going to try hard to make this one worth your time. Last time in CEO's Corner I focused on the recent rotation out of AI related stocks into assets that were easier to understand and possibly more predictable. I pointed out that while several AI/tech related indexes and ETFs were breaking down the broad equity market wasn't. Other sectors were being lifted by receiving the cash that was coming out of AI. Rotations like this are normal when one sector gets too far ahead of itself. We haven't been very worried about the broader market breaking down, but we are "on watch".

So what are we on watch for? There are several things, but one of the most obvious is rising interest rates. Everyone wants lower rates. They stimulate the economy. Higher rates tend to slow it down. Lower inflation usually precedes lower rates, but inflation has been running hot. High oil prices, a consequence of the war with Iran, aren't helping. Here's a chart with two obvious focal points. The oval on the left marks the beginning of Russia's war against Ukraine. The oval on the right marks the beginning of the U.S war against Iran. In both cases the price of a barrel of oil spiked above $100.

Oil price spikes are a key driver for higher inflation, and higher interest rates, but there are several more. They are all in play right now.

Resurgent Inflation Risks & Geopolitical Friction

Recent spikes in energy and commodity prices, driven by the ongoing conflict and trade disruptions in the Middle East, have reignited concerns over persistent inflation. When bondholders expect higher future inflation, they demand higher yields to compensate for the diminishing purchasing power of fixed coupon payments over time.

Shifting Federal Reserve Expectations

Because inflation indicators have proven stickier than anticipated, market expectations for Federal Reserve rate policy have pivoted from rate cuts to potentially holding rates elevated or even hiking. When the market visualizes a "higher-for-longer" policy stance from the Fed, long-term bond yields naturally adjust upward to stay competitive.

Massive Federal Debt Issuance

The U.S. federal deficit remains exceptionally high, forcing the U.S. Treasury to issue massive volumes of new long-dated bonds. Standard supply-and-demand mechanics apply: to entice institutional buyers to absorb hundreds of billions in new debt, bond prices must fall, which pushes yields higher.

Elevated Term Premium & Fiscal Concerns

Investors demand a higher “term premium”, the extra yield required to hold a long-term bond rather than continually rolling over short-term bills. With national debt exceeding 100% of GDP and lack of long-term fiscal consolidation plans, market participants require higher yields to stomach the long-term duration and credit risk.

“With debt now above 100% of GDP, it’s only a matter of time until we pass the all-time record of 106% reached in the immediate aftermath of World War II. This time the borrowing isn’t borne from a seismic global conflict, but rather a total bipartisan abdication of making hard choices.” (Committee for a Responsible Federal Budget, April 30, 2026)

Increased Competition for Capital

Governments are no longer the only mega-borrowers in the long-term debt market. Corporate borrowing—especially massive issuance by technology companies funding artificial intelligence infrastructure—has created significant competition for long-term fixed income capital, driving overall market yields up across the board. As I was reviewing this letter Saturday morning the following headline popped up on my CNBC.com feed.

AI AGE

Bond market anxiety is growing over AI capex budgets

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When Treasury yields are low, investors are forced into riskier assets like equities to seek yield ("There Is No Alternative" or TINA). If long term Treasury yields break above 5% , guaranteed government-backed debt offers a real alternative to volatile equities. More capital may start to flow out of stocks and into bonds.

By now you might be asking yourself why I’m going into all of this. The answer to that is long term interest rates, represented by the 10 and 30 year U.S. Treasury yields, appear close to breaking out to new multi-year highs. If that happens, it’s easy to predict that the broader stock market will retreat.

Here’s a monthly chart of the 10 year U.S. Treasury yield. Each little “candle” on the chart represents price movement for one month. The blue oval on the bottom left is at the Covid low during 2020. You can see how interest rates climbed through 2023. In early 2024 this rate peaked. It’s been trending sideways, “consolidating” ever since. This month it’s started to break out above the consolidation pattern trendline. Inevitably it was going to break one way or the other. We all wanted it to break down, but it’s starting to break the other way.

Here's the monthly chart of the 30 year U.S. Treasury yield, with a similar blue oval marking the Covid bottom. This consolidation looks a little different. On the top end, it's been pushing to break well above 5% for about 2.5 years. There's been three previous attempts to break above that blue overhead resistance line. Now we are getting a 4th one, just as the 10 year is seemingly breaking out too.

If these breakouts gain momentum the prices of long term bonds and most stocks will drop, as yields adjust upward. This is what happened during 2022, when yields made a sharp move upward. Both stocks and bonds finished that year in negative territory.

This discussion can take us right to politics, which is always a dangerous topic among friends! The truth is our government needs to start reigning in debt, not expanding it forever.

All the best,

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