

2026-10-1

ECO

bonds

Is Time to Give Bonds a Second Chance?

“Set it and forget it” can be a solid investing strategy. Just don’t forget math.

Bonds, making headlines for the wrong reason recently, have been sinking for years. Incredibly, a dollar invested in the S&P 500, the most-followed stock index, would have more than doubled since the start of 2021 but lost value in the Bloomberg US Aggregate Bond Index, the leading fixed-income benchmark.

When stocks have had a really bad run, someone will always claim they saw it coming and that the signs were obvious. Well, maybe, but bonds’ negative returns really were foreseeable.

Despite that, parts of millions of people’s paychecks were dutifully invested in them based on cookie-cutter formulas. The percentage rises mechanically by age because bonds are in theory less risky.

Vanguard’s popular Target Retirement 2025 Fund, aimed at those right around retirement age, has just over half of its assets in bonds while the 2065 version designed for people just entering the workforce has barely 8%. That means older savers got hit harder by bonds’ poor performance.

The best retirement strategy for most people is usually the cheapest and simplest. It should work on autopilot, avoiding rash decisions that can be influenced by scary or exciting headlines.

But you didn’t need to be a newshound to get spooked when 10-year U.S. Treasury notes yielded barely half a percent in 2020. You were already losing money after inflation, and you were going to lose a lot more when yields got back to normal. Low coupon bonds have higher duration and greater convexity—measures of their price sensitivity to interest rates.

That’s all water under the bridge, and things look very different today. There’s an argument that investors should now tilt away from stocks to bonds in those formulas given the multidecade highs in yields and lofty S&P 500 valuations.

One measure that captures the trade-off is economist Robert Shiller’s Excess CAPE Yield. This compares the yield on stocks (the inverse of his cyclically adjusted P/E ratio) with inflation-adjusted bond yields. The difference between the two, stocks’ excess, is a low 1.01 percentage points today versus 4.88 percentage points in March 2020.

So, in theory, the cookie-cutter approach that hurt older savers could help them today. Or maybe not, since future inflation is a wild card and it could dent bonds’ value more than real assets like stocks. One way to get the best of both worlds—a handsoff portfolio that tries to account for that math—might be an assetallocation fund.

These have dynamic formulas. One is Bridgewater’s All Weather ETF, which is heavily overweight inflation-linked bonds. Another is Elm Wealth’s much cheaper Market Navigator ETF. It’s underweight both U.S. stocks and bonds at the moment, giving more weight to cash and emerging- market stocks.

There are no guarantees in life—there could be wars, financial crises, or worse. But a portfolio that runs the numbers and accounts for what has done well or poorly when conditions were similar in the past could smooth that future path.

—*Spencer Jakab*

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

For personal, non-commercial use only.

Selloff in Treasuries Sends Yield To Highest Since 2002

WEDNESDAY'S MARKETS

BY SAM GOLDFARB

The bond market keeps turning back the clock. *Note*

Relentless selling pressure pushed the yield on the 10-year U.S. Treasury note above 5.3% Wednesday—blowing past its 2007 peak to reach its highest level since 2002, according to Tradeweb.

The milestone is particularly notable because it hints that U.S. borrowing conditions haven't just returned to a pre-2008-2009 financial crisis normalcy, as some investors have recently suggested. Instead, something even bigger might be afoot. *Note*

When Treasury yields last were this high, the U.S. economy was in an entirely different era. The dot-com stock bubble had largely deflated, but investors still had memories of the robust economic growth and consistently high interest rates of the 1990s — and even the sky-high inflation of the early 1980s. *Note*

As yields fell in subsequent years, many economists concluded the world had entered a new epoch of tepid inflation and permanently low interest rates. Those views were challenged by the Covid inflation surge earlier this decade. But they have now been completely cast aside, replaced by new forecasts of an extended period of elevated borrowing costs. *Note*

Bonds could be volatile in the near term, but “the trend in yields is upward,” said Blerina Uruçi, chief U.S. economist at T. Rowe Price. “There are many factors driving yields higher that are structural, and those factors are here to stay.” *Note*

Though unexpected events such as Covid and wars have helped drive yields to current levels, investors and economists also point to more durable forces as well. Those include a growing tide of government debt testing the limits of investor demand, the artificial-intelligence investment boom that is powering economic growth, and rising trade barriers that are pushing up inflation. *Note*

Investors and economists care about the 10-year Treasury yield because it plays a critical role in setting borrowing costs across the country. As the yield has climbed in recent months, so too has the cost of getting a mortgage for

Bond Yield Hits Highest Since 2002

families, and of issuing bonds for large U.S. companies.

That increase has been painful for many potential borrowers, and a frustration for Republicans ahead of the November midterm elections. But it notably hasn't done much to slow the overall economy—the resilience of which has only pushed yields upward, as investors wager that the Federal Reserve will need to keep raising interest rates to tame inflation.

Large structural forces aside, the focus of most bond investors remains the U.S. conflict with Iran. The 10-year yield had reached a recent low point below 4% on Feb. 27, just before the U.S. and Israel started the conflict, spurring a surge in energy prices as Iran moved to throttle shipping in the Strait of Hormuz. It ended Wednesday at 5.292% after rising as high as 5.306% earlier in the session. *Note*

U.S. Navy and Gulf oil producers have recently improved at fending off or evading Iranian attacks, allowing more tankers to cross the strait. Nonetheless, Brent crude, the international oil benchmark, has remained near \$100 a barrel, diesel prices recently hit record highs and investors remain nervous that the flow of oil could deteriorate again as long as the two sides haven't reached a definitive peace agreement.

"We see traffic increasing. That's nice," said John Briggs, head of U.S. rates strategy at Natixis Corporate & Investment Banking. But, he added, "just because supply is moving out now doesn't mean that it's going to continue."

A central bank shouldn't necessarily raise interest rates in response to inflation caused by an energy shock, according to textbook economic theory. Higher rates can't increase the supply of oil, and the shock could always end on its own. That theory, however, is holding less weight now because inflation has been above the Fed's 2% target for years, stirring concerns that it could become entrenched in the economy. In addition, economists say factors other than the war, such as AI investment, are also fueling consumer price increases.

Under Chairman Kevin Warsh, the Fed's rate-setting committee already voted unanimously to raise rates earlier this month. Now, investors are expecting several more increases over the next 12 months, based in part on concerns that businesses will start passing the cost of rising fuel prices onto consumers, feeding more broadly into inflation.

On Tuesday, yields on short-term Treasury yields—which are particularly sensitive to the near-term outlook for Fed policy—fell modestly after New York Fed President John Williams said there was currently no "urgency" to raise rates again.

Still, yields on longer-term Treasuries barely changed, and they quickly resumed their climb on Wednesday.

To some analysts, moves like that suggest that the market is dictating interest rates now, even more than the Fed. As long as investors remain concerned about the inflation outlook, yields could rise no matter what Fed officials say. In fact, the Fed could be pushed to raise rates to calm the market and prevent longer-term yields from rising too quickly.

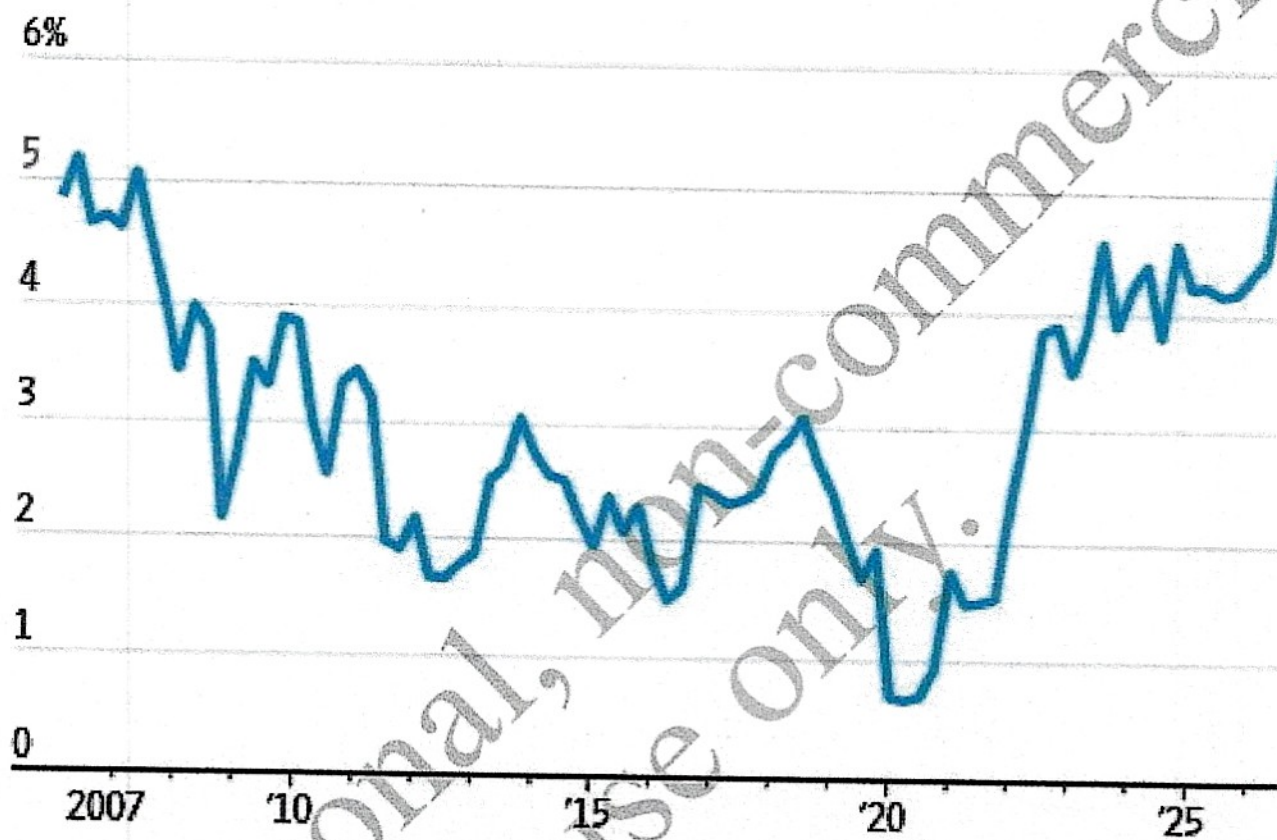
So far, stocks have largely withstood the rise in bond yields, largely thanks to the strong corporate earnings.

Some, though, worry that stocks are vulnerable because Warsh has said that overall financial conditions aren't "restrictive," suggesting that the lofty market could itself be fostering inflation by boosting the wealth of investors and giving companies relatively easy access to financing.

If Fed officials "really want to get inflation down to two, they may have to get restrictive, which the stock market wouldn't like," said Bob Doll, chief investment officer at Crossmark Global Investments.

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

10-year Treasury yield



Note: Quarterly data
Source: Tullett Prebon

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit [djreprints.com](https://www.djreprints.com).

