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The 10-year Treasury is having its worst run in over 100 years. Why investors are buying bonds anyway

Story by Joy Wiltermuth 2026-9-18

Investors are hoping that a historically bad stretch for the bond market will end at some point. Yet in 2026, they aren't all avoiding bonds entirely while waiting for the trouble to blow over.

The Bloomberg Aggregate Bond Index — the bond market's equivalent of the S&P 500 stock benchmark — was down 1.6% on a total-return basis this year through Wednesday's close, according to Dow Jones Market Data.

The index return had flipped between negative and positive performance earlier in the year, but went consistently more negative in August as global crude-oil prices climbed toward \$100 a barrel. The Bloomberg index includes Treasurys, corporate bonds, mortgage-backed securities and other government-backed debt. It doesn't include ultrashort Treasury bills. - Note

Note Higher oil prices cause inflation that damages the value of bonds, especially longer-dated ones, because a fixed income affords less when the cost of living rises. The Federal Reserve, under new Chairman Kevin Warsh, hiked interest rates this week for the first time in three years to fight inflation, with Warsh saying the economy can handle removing a "dose" of accommodation.

Note "The Fed and the market lost patience with how long inflation has been above target," said George Catrambone, Americas head of fixed income at DWS. The ongoing Iran war, which has dragged on for longer than many expected, has also has been a problem, he noted. - Note

Note A Fed rate hike, or a series of them, won't get more oil flowing out of the Persian Gulf. Yet the start of a second hiking cycle since 2020 has calmed the selloff in long-dated Treasurys. - Note

The all-important 10-year Treasury yield eclipsed 5% this week and hit its highest level in 19 years. That's up from 4% at the start of the Iran war in late February. - Note

When asked about the Treasury rout Wednesday, Warsh pointed to global "hot spots" and several other factors putting pressure on the "the most important asset anywhere in the world." - Note

"It's the risk-free asset upon which every price of virtually every asset in the world is related to," he said. - Note

The 10-year yield fell 5.7 basis points Thursday to 4.946%, its lowest level in a week, according to Dow Jones Market Data.

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Still, the move to 5% has investors taking notice, said Brian Rehling, co-head of global fixed-income strategy at the Wells Fargo Investment Institute.

"The higher that yields go — for at least new money — it becomes more enticing to think about putting money into bonds," Rehling said.

U.S. bond funds have now seen 71 straight weeks of inflows, according to Winston Chua, a liquidity analyst at EPFR. Inflows have been concentrated in U.S. short-term bond funds, which surged to 12.2% of assets (\$139.9 billion) in that time, while U.S. long-term bond funds have taken in just 2.9% of assets (\$19.3 billion).

This comes despite a flat performance for short-term debt and the net asset value of U.S. long-term bond funds having fallen close to 5%, Chua said.

When yields jolt higher, older bonds in a portfolio that offer less income can lose value. Bond prices fall when yields rise.

Goldman Sachs strategist on Thursday charted five-year rolling returns on the all-important 10-year Treasury note — pegging it as the worst such period for returns in more than a century.

That's before adjusting for inflation. "In real terms, they were nearly as bad as after World War I and World War II and in the 1970s," wrote a Goldman strategy team led by Christian Mueller-Glissmann.

The red ink in bonds shows how painful inflation can be for investors, even if the nearly four-year bull market in stocks has delivered a big financial boost to many households.

The dynamic highlights the hazards of policies that keep rates ultralow for an extended period, as easy borrowing conditions often create asset bubbles. Five years ago, the 10-year Treasury yield was at about 1.3%.

It's unsurprising that "bonds have had low returns over the last rolling five-year period, because yields were low on average and interest-rate risk was more exaggerated five years ago, said Cullen Roche, founder and CIO of Discipline Fund, an investment adviser and ETF manager.

Yet "as yields rise and prices fall, that asset becomes more attractive," Roche added.

It's akin to buying a cheaper used car and driving it until it dies; the pace at which both old bonds and used cars lose value slows with time. Yet bonds are designed to kick off the same income each year, no matter their price in the open market.

To be sure, higher starting yields on new bonds help provide more income and downside protection. There still are inflation risks and uncertainty about where the Iran war goes from here. The Fed on Wednesday indicated inflation could finish the year at around 3.7% and only get back to its 2% target in 2029.

"It's still safe to say that there's risk in long-term bonds, but they've become more attractive, and short-term bonds have become very attractive," Roche said.

