HB Wealth

Market Sense – 30-Year Yield Nears 20-Year Highs, and It Isn't Just About the Fed

August 11, 2026

Abstract:

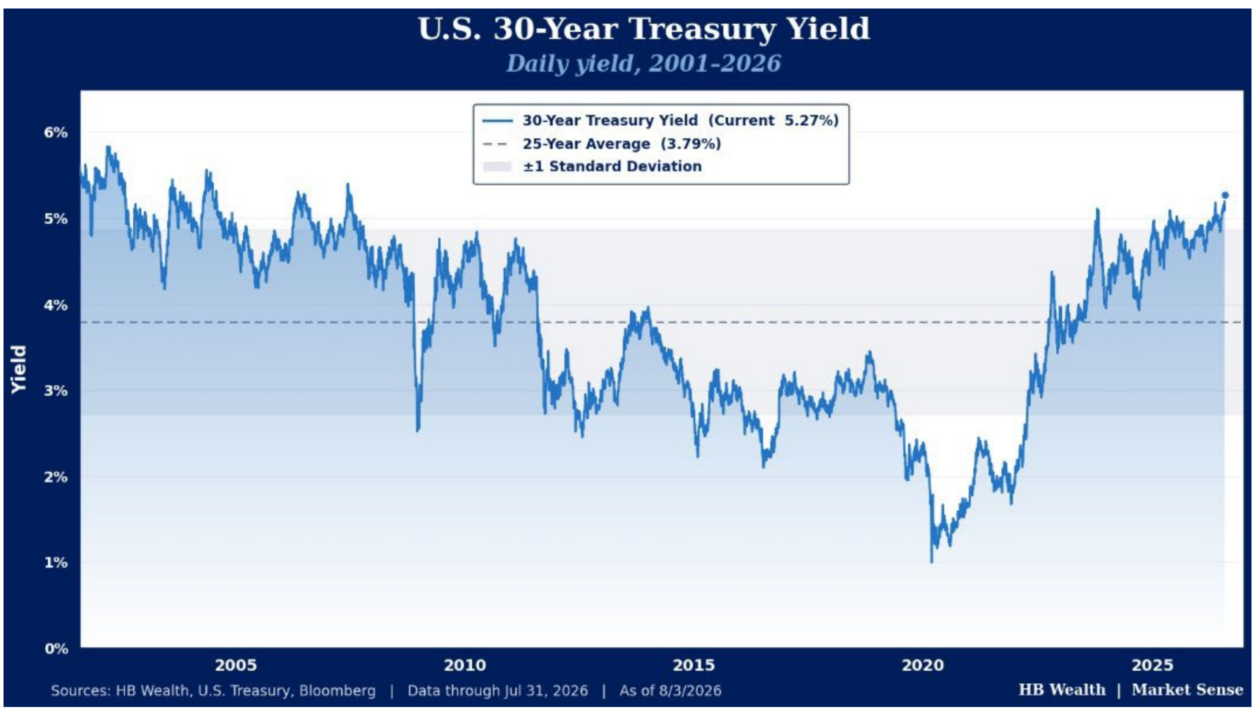
- *30-Year Treasury yields broke to new post-financial crisis highs this summer, in part due to the surge in inflation pressure just as the new Chairman of the Federal Open Market Committee (FOMC) was appointed.*
- *New communication policies and the infrastructure overhaul at the FOMC may continue to make bonds jittery, especially as inflation remains above the loose target of 2%.*
- *However, there is more to watch with respect to the 30-year yield. We see competition from hyperscaler issuance as well as the federal deficit as likely secular drivers of higher-for-longer interest rates on the long end of the curve.*

30-Year Yield Nears 20-Year Highs, and It Isn't Just About the Fed

The 30-Year yield breached the 5.2% level recently, its highest level since 2007, and has remained above 5% since early July. While this persistently high yield on the long bond has been largely due to the erosion of perceived inflation-fighting credibility of the Federal Open Market Committee (FOMC), it is being driven by a range of factors worth watching. Beyond the FOMC, we see competition for long dated capital with IG corporate issuance and the fiscal backdrop playing roles that may keep yields somewhat elevated, even if inflation cools enough to help bonds feel more comfortable that the policymaking body is not losing control.

Erosion of Faith in the Fed's Reaction Function

Part of the reason long bond yields have surged to new post-financial crisis highs is that the market is struggling with a bit of crisis of confidence in the FOMC with new leadership at the helm and a whole host of potential changes on the horizon. The market response to the late July FOMC meeting revealed the extent of uncertainty. Going into the meeting, the Fed Funds futures market was pricing in about a 1/3 chance of a hike in July - a reasonable set up for minimal market impact given the benign verdict of “hold”. However, because Fed Chair Warsh had positioned the committee as more hawkish on inflation during his first few weeks, the lack of a hike at the July meeting led many to feel that the new regime’s prioritization of inflation control may be more talk than action. One could argue (as Warsh somewhat did) that the rise in shorter yields performed much of the inflation-fighting task already. The problem with that logic is that short yields had risen because the market was looking for action to emerge from the meeting. Thus, 30-yr Treasuries moved up ~10bps higher on the day, repricing the inflation risk premium, as the bond market lost some faith that the Fed is fully committed to getting ahead of inflation.



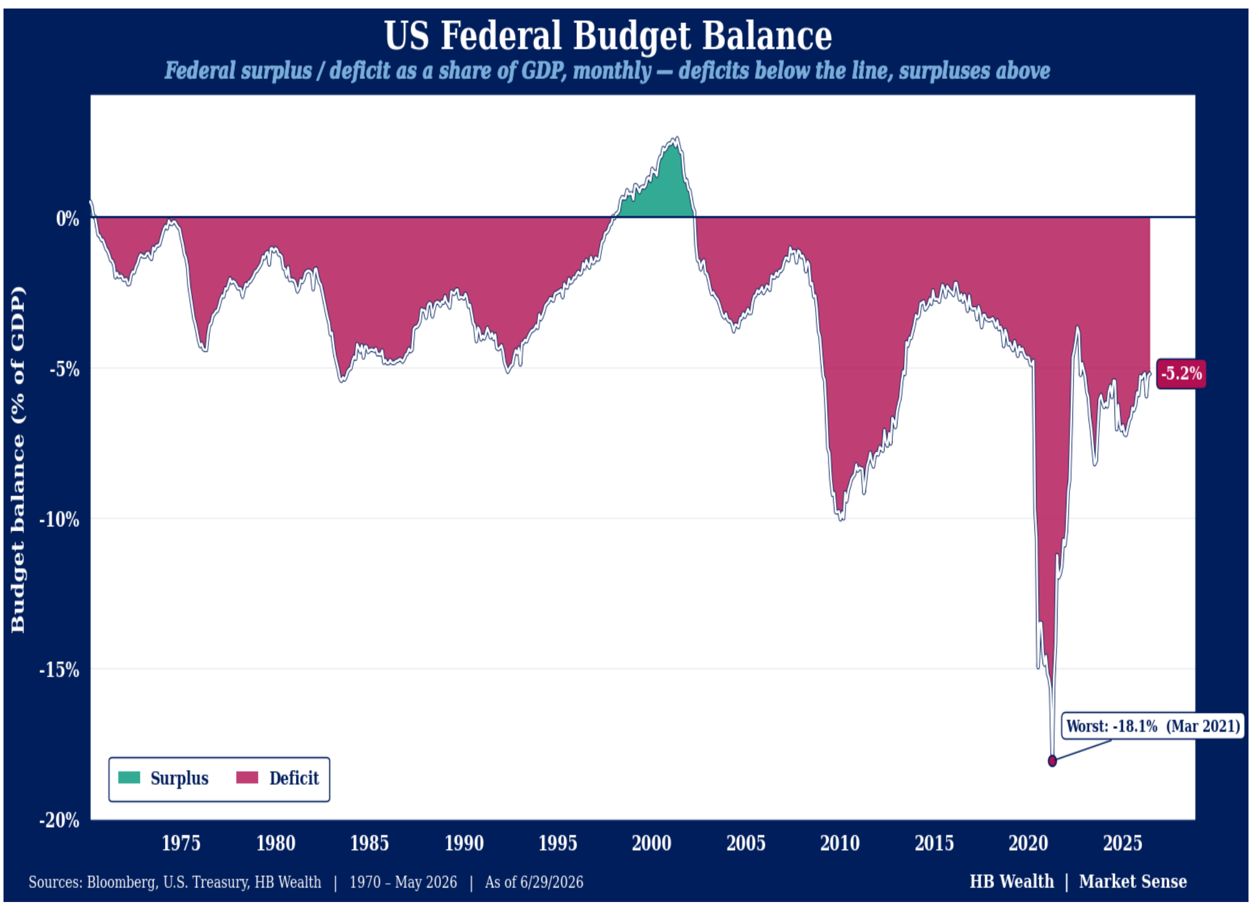
The July 29 Fed announcement and subsequent press conference was likely just one of many opportunities for yield volatility to emerge as the bond market gets acquainted with the new Chairman over the next few months. Thus, as the year progresses, bond market movements may remain largely focused on the FOMC and inflation prints. However, there are two other issues that are likely to have strong impacts on the bond market as well. These issues may endure for some time, keeping 30-yields higher even if price stability is largely achieved. Both are related to supply of debt, which is generally more than satiating demand.

Competition For Long-Dated Capital

First, it appears long-dated new issuance from Investment Grade hyperscalers is effectively operating as direct competition for the long bond from insurance companies, pensions, and the like. The Dallas Fed estimates that there may be about $360B of new 10yr+ duration AI-related debt supply this year, which is just above the $354B average annual issuance of that duration cohort for the entire IG market over the past 10 years. Alphabet is currently working through a new issue that is slated to include maturities out to 40 years. As of this writing there is still time for that deal to be revised, but the exploration of issuing more bonds that long is telling in itself. The saturation of the buyer base is visible within the deal calendar, with subsequent issues being met with decreasing appetite from potential buyers so far this year. Recently a $12.5B deal from BlackRock, named “Sopaipilla” was raised to finance a data center in Texas primarily for Meta, and was oversubscribed by only 1.6x vs an average of around 4x for other large AI deals earlier this year.

Deficit Dampens Mean-Reversion

Also, the fiscal deficit is still a strong variable impacting longer rates. While there was no particularly surprising recent news with respect to the Federal funding that sparked the move in the long bond this summer, the deficit is still more than 5% of GDP. This is a level normally reserved for recessions, but this time in the middle of an economic expansion. This enormous deficit will need to be funded through debt, which itself limits the likelihood that recent shocks to the long end will mean-revert. According to the Congressional Budget Office, net interest payments are projected to exceed $1 trillion annually and reach roughly 3.3% of GDP by 2030 as federal borrowing and debt costs rise, and net interest is on track to outpace major federal spending categories like defense and nondefense discretionary programs. Since the majority of the CBO’s projected budget problems now regard servicing the debt, higher rates become self-reinforcing; higher rates mean more debt service, which means more term premium. That dynamic dampens historical mean-reversion capacity and results in naturally higher floor for 30-year yields.



HB Wealth

Authored by:

Gina Martin Adams, CFA, CMT

Chief Market Strategist

Adam Sheely, CFA

Senior Market Strategist,
Director of Fixed Income

Max Hurd, CFA

Associate,
Investment Research

Important Disclosures