Weekly Market Perspectives

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What Could Higher Long-Term Government Bond Yields Mean for Equities?

Stocks advanced higher with the Russell 2000 Index leading major averages higher last week as better-than-expected inflation data and reduced odds of a Federal Reserve rate hike lifted sentiment. This week, the July FOMC minutes, August flash PMIs and retail earnings reports line the calendar.

Last week in review:

- The S&P 500 Index rose +0.4%, the NASDAQ Composite gained +0.2%, and the Russell 2000 Index added +1.1%. The Dow Jones Industrial Average slipped 0.5%. Memory stocks and AI infrastructure names led performance, while Energy was the strongest S&P 500 sector, gaining +7.3%.
- Treasury yields were mixed, with the curve steepening. The 30-year Treasury yield finished the week at 5.25%, its highest closing level since 2007. The U.S. Dollar Index, Gold, and West Texas Intermediate (WTI) crude advanced.
- July core CPI came in as expected, while core PPI was cooler than anticipated. July retail sales and preliminary August University of Michigan consumer sentiment both came in below expectations. One-year inflation expectations in the Michigan survey held at +4.2%, while five-year expectations remained at +3.3%. Markets subsequently reduced expectations for additional Federal Reserve tightening this year.
- The artificial intelligence (AI) story remained active last week. OpenAI reportedly surpassed a $40 billion annual revenue run rate, NVIDIA announced $500 billion in financing commitments, and several cloud infrastructure providers raised pricing in response to strong demand. At the same time, competition intensified, with major AI developers lowering prices and investors remaining highly selective around earnings results despite generally favorable demand trends.

What could higher long-term government bond yields mean for equities?

The S&P 500 Index reached another record high last week. The Index has made 28 new closing highs in 2026 and has already matched the number of new highs seen for all of 2025, with four and a half months still left in the year. In our view, last week's new S&P 500 high was supported by strong corporate earnings, continued enthusiasm for AI, and easing concerns about inflation reaccelerating. That said, the new high was reached with fewer than 50% of the S&P 500's constituents trading above their own 50-day moving averages, suggesting that, as in other periods during this bull market run, leadership is narrow.

For its part, the bond market spent much of last week demanding higher yields to absorb new Treasury issuance. Under the radar, the development drew some attention from market watchers, as yields rose despite relatively encouraging inflation data last week and an improved near-term outlook for Federal Reserve policy (i.e., policymakers remain on hold in September). Notably, the U.S. Treasury came to market last week with $67 billion in long-dated debt issuance, including $42 billion in 10-year notes and $25 billion in 30-year bonds. Of course, both auctions cleared successfully. However, those newly issued government bonds were attached with some of the highest yields seen in years. The 10-year auction ended at a yield of 4.68%, the highest since 2007. The 30-year auction ended at a yield of 5.21%, the highest auction yield since 2001. While the government successfully raised the capital it needed, investors required higher yields to absorb the supply, which is something we believe investors should begin paying closer attention to.

In our view, last week's auction results reinforce a less-followed theme that has been developing throughout the year. **When it comes to longer-dated Treasury issuance, investors are increasingly focused and concerned about the growing amount of U.S. debt and America's lack of fiscal discipline. And frequent, large-scale treasury auctions are a chance for the bond market to push back against the government's eroding fiscal trajectory, as they demand higher yields for the auctions to clear.**

Average 10-Year Treasury Yield by Decade

Period	Avg. 10-Year Yield
1990s	6.65%
2000s	4.43%
2010s	2.38%
2020s (through August 2026)	3.08%

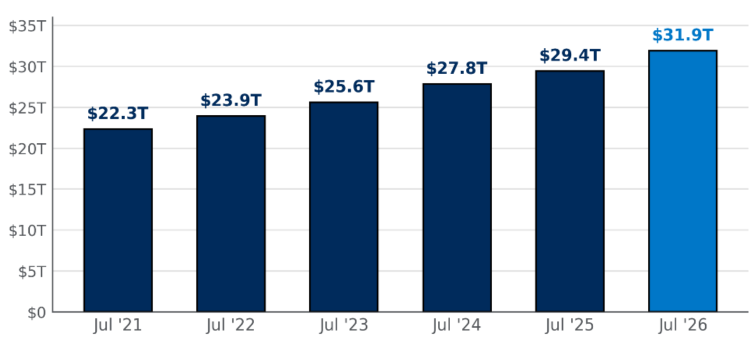
Sources: Bloomberg. American Enterprise Investment Services, Inc.
Data uses month-end sampling.

This example is shown for illustrative purposes only. Past performance is not a guarantee of future results.

According to the Congressional Budget Office (CBO), U.S. federal deficits are expected to remain near 6% of gross domestic product (GDP) over the coming decade. Debt held by the public has already moved above 100% of GDP. According to CBO projections, debt held by the public is expected to rise from approximately 101% of GDP in 2026 to roughly 103% in 2027, reach approximately 107% by 2030, and climb toward 118% to 120% over the next ten years. If such levels are reached, the 2030 forecast alone would exceed the previous post-World War II record of 106% of GDP reached in 1946. Interest costs are also becoming a growing part of the Treasury story. Notably, net interest payments are expected to consume an increasing share of federal outlays over the next decade as older, lower-coupon debt matures and is refinanced at today's higher rates.

The National Debt Is On An Unsustainable Path

Debt Held by the Public (Trillions of $)



Sources: U.S. Department of the Treasury, Peter G. Peterson Foundation. Data as of July FY2026.

The result is a problematic feedback loop. Larger deficits require additional borrowing. Additional borrowing requires additional issuance. Additional issuance can place upward pressure on yields, which in turn increases future interest expense. Very simply, we believe investors are increasingly evaluating Treasury securities through the lens of longer-term fiscal sustainability and less through the lens of inflation, monetary policy, and growth, at least for the longer end of the Treasury curve. However, while current yields have recently moved higher, historical context is important. Viewed through the lens of history, a 10-year Treasury yield currently at 4.69% is certainly elevated relative to the post-financial-crisis period, but not very unusual relative to the 1990s and 2000s.

But unlike the 1990s and 2000s, the amount of U.S. debt outstanding is much larger today. According to the *Peter G. Peterson Foundation*, the national debt outstanding was $22.3 trillion in July 2021 and now stands at nearly $32 trillion. For context, U.S. debt held by the public stood at less than $10 trillion between the 1990s and 2000s. Higher rates have a larger impact when governments carry substantially more debt than they did during previous periods of elevated yields. So, while current yields are not extreme compared with several earlier periods in modern history, they are high relative to the post-financial-crisis period. And we believe the interaction between higher yields and a much larger U.S. debt burden is what makes today's environment unique relative to prior decades.

Despite higher long-term yields and a more fragile U.S. fiscal situation, equity investors are largely ignoring the issue for now. That's because S&P 500 earnings expectations continue to reflect a very strong profit backdrop.

For example, *FactSet* estimates call for approximately +26% earnings per share (EPS) growth in the third quarter, +24.5% in the fourth quarter, roughly +31% for full-year 2026, and approximately +13% annualized growth in 2027. The AI investment cycle also remains an important counterbalance to higher interest rates. Capital spending tied to AI infrastructure, data centers, cloud computing, semiconductors, and software deployment continues to support revenue growth and profit expectations across several sectors. Importantly, we believe an ongoing AI secular theme and robust earnings expectations over multiple quarters have helped offset the pressure that higher yields might have placed on equity valuations. Though rising yields could create valuation headwinds for equities at some point, for now, strong earnings growth has provided an effective counterbalance.

In our view, higher interest rates create both opportunities and challenges across equity markets moving forward. **Areas that tend to benefit from a steeper yield curve include banks and other financial firms.** For example, insurance companies can benefit from higher reinvestment rates on their investment portfolios. Conversely, while technology and communication services companies remain tied to the AI investment cycle and strong earnings visibility, higher discount rates could create periodic valuation pressure for these areas if outlooks suddenly shift. **And since utilities, real estate investment trusts (REITs), and other income-oriented sectors compete more directly with Treasury yields for investor capital, these sectors may see lower demand if rates continue to rise.** In a higher-rate environment, we believe earnings quality, balance-sheet strength, and durable growth become increasingly important differentiators in the equity space.

For fixed-income investors, yields on treasuries, corporates, municipals, and securitized debt remain well above levels seen throughout most of the 2010s, allowing bond allocations to once again generate meaningful income and provide potential portfolio resilience if equity volatility picks up.

Bottom line: For the rest of the year, investors will be closely watching whether the 10-year Treasury yield can remain contained, particularly below 5.0%. For reference, our year-end 10-year forecast stands at 4.50%. Demand at upcoming Treasury auctions and the pace of future debt issuance will also be watched. In the background, inflation and Fed policy expectations, S&P 500 earnings revisions, and whether AI-related investment continues to translate into meaningful productivity gains and profit growth will be the intersection points between bonds and stocks.

Importantly, for much of the last fifteen years, investors operated in a market where stable-to-falling interest rates consistently supported higher stock prices. However, last week's Treasury auctions were a reminder that the landscape is shifting. The calculus regarding longer-term Treasury holdings increasingly requires that an investor be comfortable financing ever-larger government borrowing needs at current yields. **And should investors require more compensation in the future as more Treasury auctions come to market, it will be increasingly important for corporate fundamentals and AI momentum to continue meeting expectations if the equity market is to keep looking past a higher-for-longer rate environment**.

The Week Ahead:

- July FOMC meeting minutes on Wednesday and August flash S&P Global PMIs on Friday headline this week's economic calendar.
- Housing data will also be in focus, including July housing starts, building permits, and pending home sales.
- Earnings season slows considerably, with Home Depot, Lowe's, Target, TJX Companies, Walmart, Ross Stores, and Analog Devices among the notable reports.

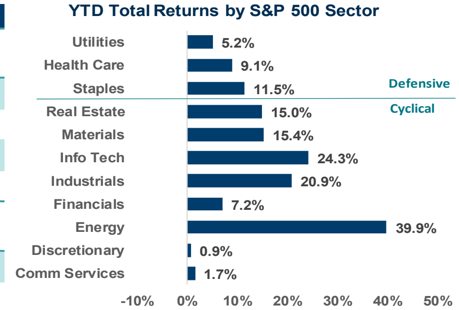
Benchmark	Total Returns: Weekly	Total Returns: MTD	Total Returns: YTD	LTM PE: Current	LTM PE: 5-Year Median	Yield %: Current	Yield %: 5-Year Median
Stock Market Recap							
S&P 500 Index: 7,786	0.4%	4.0%	14.5%	26.7	25.5	1.0	1.3
Dow Jones Industrial Average: 53,732	-0.5%	2.4%	12.8%	21.2	22.3	1.3	1.8
Russell 2000 Index: 7,626	1.1%	4.7%	24.5%	77.8	44.8	1.1	1.3
NASDAQ Composite: 26,729	0.2%	5.4%	15.4%	37.1	37.7	0.5	0.7
Best Performing Sector (weekly): Energy	7.3%	3.9%	39.9%	16.8	13.7	2.5	3.4
Worst Performing Sector (weekly): Consumer Discretionary	-1.9%	0.8%	0.9%	26.4	31.4	0.6	0.7

Source: Factset. Data as of 08/14/2026

Benchmark	Total Returns: Weekly	Total Returns: MTD	Total Returns: YTD
Bond/Commodity/Currency Recap			
Bloomberg U.S. Universal	-0.1%	0.5%	0.0%
West Texas Intermediate (WTI) Oil: $82.40	3.3%	-4.4%	43.9%
Spot Gold: $4,376.82	0.8%	8.2%	1.3%
U.S. Dollar Index: 99.67	0.1%	-0.2%	1.4%
Government Bond Yields	**Yield Chg: Weekly**	**Yield Chg: MTD**	**Yield Chg: YTD**
2-year U.S. Treasury Yield: 4.17%	-2 bps chg	-10 bps chg	70 bps chg
10-year U.S. Treasury Yield: 4.69%	5 bps chg	-2 bps chg	51 bps chg

Source: Factset. Data as of 08/14/2026. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 08/14/2026

These figures are shown for illustrative purposes only and are not guaranteed. They do not reflect taxes or investment/product fees or expenses, which would reduce the figures shown here. An index is a statistical composite that is not managed. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

Important Disclosures

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Alternative investments cover a broad range of strategies and structures designed to be low or non-correlated to traditional equity and fixed-income markets with a long-term expectation of illiquidity. Alternative investments involve substantial risks and may be more volatile than traditional investments, making them more appropriate for investors with an above-average tolerance for risk.

Portfolios that hold a limited number of securities or concentrate investments in similar industries, sectors or geographical regions may experience greater volatility and greater risk of loss as the performance of these investments (either positive or negative) will have a greater impact on the portfolio as a whole.

International investing involves certain risks and volatility due to potential political, economic, social, or currency instabilities and different financial and accounting standards. These risks are enhanced for emerging markets.

Diversification does not assure a profit or protect against loss.

Commodity investments may be affected by the overall market and industry- and commodity-specific factors, and may be more volatile and less liquid than other investments.

There are risks associated with **fixed-income** investments, including credit (issuer default) risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

Investments in **small cap companies** involve risks and volatility greater than investments in larger, more established companies.

Generally, **large-cap** companies are more mature and have limited growth potential compared to smaller companies. In addition, large companies may not be able to adapt as easily to changing market conditions, potentially resulting in lower overall performance compared to the broader securities markets during different market cycles

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **S&P 500 Index** is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value (shares outstanding times share price), and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957 although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall US equity market. Over 70% of all US equity value is tracked by the S&P 500. Inclusion in the index is determined by Standard & Poor's and is based upon their market size, liquidity, and sector.

The **NASDAQ Composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average** (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the largest 2000 securities in the Russell 3000.

The **US Dollar Index** (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

University of **Michigan Consumer Sentiment Survey** is a rotating panel survey based on a nationally representative sample of households in the U.S. that measures how consumers feel about the economy, personal finances, business conditions, and buying conditions.

Producer Price Index (PPI) measures change in the prices paid to U.S. producers of goods and services. It is a measure of inflation at the wholesale level. The index is published monthly by the U.S. Bureau of Labor Statistics (BLS).

The Consumer Price Index (CPI) is an inflation indicator that measures the change in the total cost of a fixed basket of products and services, including housing, electricity, food, and transportation. The CPI is published monthly by the Commerce Department and is also commonly referred to as the cost-of-living index.

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