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Bond Yield Consequences

August 11, 2026

In the nonintuitive world of bond trading, a rise in yields is described as a 'selloff,' while yields falling is described as a 'rally.' The reasons are not too complicated: when people are avoiding bonds, it means that they're demanding higher yields to compensate for real or perceived risks. When there is demand for bonds, it means that they're willing to settle for lower yields.

Armed with that explanation, we can see that a jump in the yield of the U.S. government's 10-year Treasury bonds to 4.7%—the highest rate since January 2025—constitutes a mini-bear market in bonds. Analysts have given conflicting reasons, but some have pointed to the on-again, off-again war in Iran, while others believe that bond investors think the Federal Reserve's recent decision not to raise rates to fight inflation was a mistake. (Inflation eats into the real returns of fixed income investments.)

A bond bear's biggest real-world impacts are on home mortgages and the federal government's finances. The 30-year fixed mortgage rate generally goes up or down in tandem with the 10-year Treasury yield—remaining at between 1.5 and 1.75 percentage points higher. The recent uptick in rates, of course, makes it more expensive to buy a new home, which could suppress the home buying component of future Gross Domestic Product (GDP) calculations.

And in aggregate, the uptick in bond rates raised U.S. government borrowing costs to their highest level since 2007. Interest payments on the total government debt is projected to exceed $1.04 trillion for the full fiscal year. That figure was $345 billion as recently as 2020. In fact, this will be the first year in modern history that the government will spend more money on debt service than it will spend on national defense. As the Congressional debate over funding the government plows on, it's fair to wonder how long THAT can go on.

Sources:

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If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

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