US Treasury Yields Surge to 19-Year Highs Driven by Real Rates

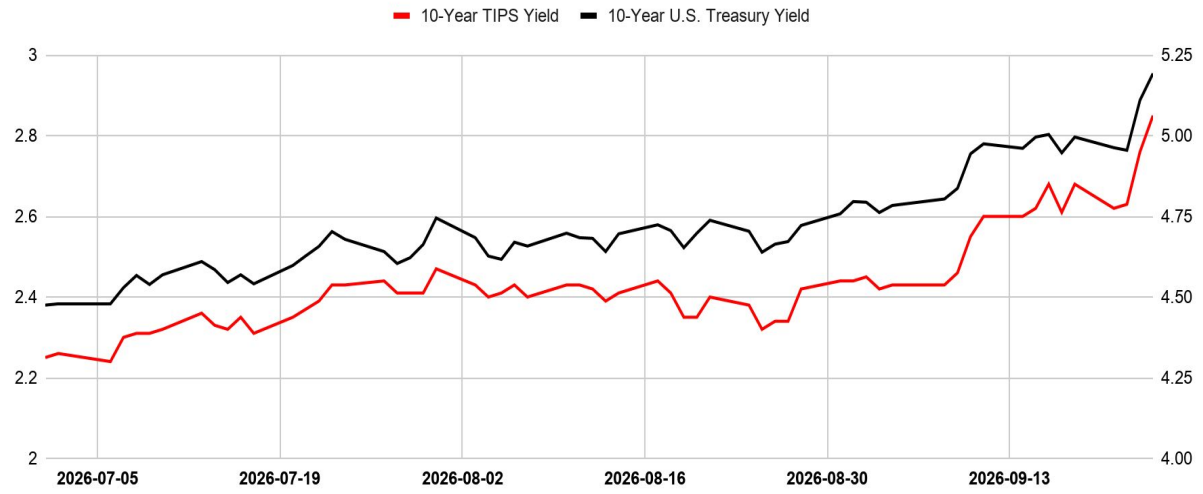
September 30, 2026

Key Market Events

10Y UST yields rose 18.5bp this week to **5.17%**, a 19-year high, while 30Y yields climbed 17.3bp to 5.5%, the highest since June 2004. The selloff reflected three key forces:

- **Strong growth + hawkish Fed → real yields↑:** September PMI jumped to 58.4; the Fed began a new hiking cycle and signaled further tightening ahead.
- **Oil risks → headline inflation concerns :** Iran's hardline UN stance and rising Strait of Hormuz tensions renewed concerns over oil supply and inflation.
- **Heavy Treasury supply → term premium↑:** Weak 5-year auction demand and U.S. debt surpassing $40 trillion raised the premium for holding longer-duration Treasuries.

The surge in US Treasury yields is mainly driven by real yields.



Source: Wall Street Journal, Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics

Impacted Products

- **Treasury Futures** : **Price↓**
- **Corporate Bonds / IRS** : **New-issue yields↑** and **swap rates↑**, raising financing and hedging costs
- **Equity** : Higher WACC → **Valuation pressure** on long-duration stocks
- **USD** : **Positive** on higher relative yields
- **Gold** : **Negative** as real yields rise
- **Mortgage** : Higher mortgage rates → **Housing activity↓**

Higher-for-Longer	Economy Cools
strong growth / sticky inflation / persistent energy risks	short-end yields↓ fiscal pressure may keep long-end elevated

Trading Strategy : Add duration while managing rate risk.

Target Client : Life Insurers in Taiwan
Assumption : Liability DV01 > Asset DV01

- **BUY long duration UST gradually :** Increase asset duration exposure to narrow the ALM duration gap while taking advantage of elevated Treasury yields.
- **FAVOR AC for core holdings :** Lock in attractive carry for long term ALM, while keeping part of the portfolio in FVOCI for liquidity and potential capital gains if yields fall.
- **HEDGE against near term yield increases :** Use pay fixed IRS or short Treasury futures to offset part of the added duration exposure if yields rise further.

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