



The Tatton Weekly

Bond yields vs. stock market returns

25 September 2026

This week's topics:

Waiting for Goldilocks

'Pump and dump' turned Ponzi

SoftBank's big bond bet

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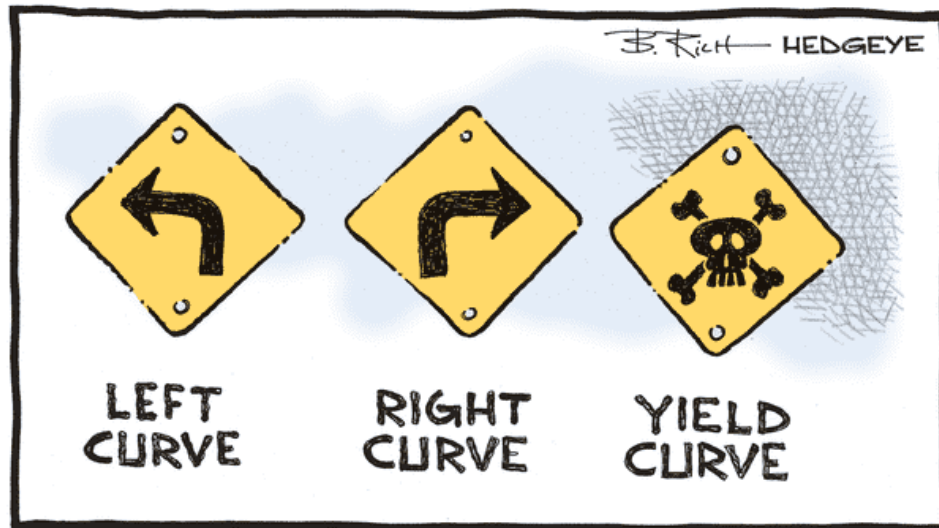
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Bond yield jitters, Bob Rich, 16 September 2026

Waiting for Goldilocks

Government bond yields keep rising. The US 10-year yield shot up to 5.2%, its highest level in nearly 20 years. This pushed up yields for all other bonds. That was not a problem for stock markets – until it was. Equities continued the theme of shrugging off bond drama in the early part of the week, but most indices dropped in the last few days. The one exception, perhaps unsurprisingly, was the mega-cap US tech stocks. How much longer can the AI trade go it alone?

Bond investors nostalgic for the 2010s

We should point out that US 10-year yields did break the 5% barrier briefly in late 2023, so this week's rise is not quite the epochal moment some media commentary suggests. But a sustained rise above 5% is undoubtedly significant.

People tend to blame the oil price shock for yield rises – and this week's bump up in Brent crude oil certainly did not help. But the key bond driver recently has been economic growth expectations, rather than inflation. The “flash” Purchasing Managers' Indices (business sentiment surveys) surprised positively in most major economies (except China). In the US, they were remarkably strong. That suggests more growth ahead, which typically pushes up bond yields, as bonds compete with growing stocks.

Stronger growth might sound like a good thing, but it is a problem for the Federal Reserve. With constrained supply, the US is probably already operating at capacity in many areas – which means that any further demand increase will feed directly into persistently higher prices. That is why the

Fed has become more hawkish (preferring higher interest rates) to stem inflation pressures. In response, market prices now imply another rate hike next month, following last week's.

Interestingly, short-term rate expectations rose faster than long-term bond yields, meaning a flatter yield curve – the difference between bond yields of long- and short-term maturity. That effectively means tightening financial conditions, as liquidity gets more expensive to fund. That is why stock markets took a hit. Investors want the slow-but-steady growth that characterised the 2010s – the so-called 'goldilocks environment' – rather than current, potentially inflationary growth.

Many parts of the global economy are already straining from high interest rates: smaller companies, non-tech companies and government finances. But the AI investment spree powering growth and stock markets keeps motoring, seemingly unaffected by rates. SoftBank's new \$11bn bond raise at yields of close to 10% demonstrates this, as we cover in a separate article.

Trump greets Xi with a smile

President Xi touched down near Washington for his meeting with Trump on Wednesday night – and the US President could hardly wait for him to get off the plane. Ahead of the summit, US Treasury Secretary Scott Bessent had already announced an extension of the US-China trade truce agreed earlier this year. Tariffs will be suspended until January, conveniently after the US midterm elections.

There has been very little of note from the actual Trump-Xi meeting. The leaders of the world's two largest economies appear to be playing nice, at least, not wanting to generate any negative headlines. That is to be expected from Xi, but a remarkable show of restraint from Trump.

There may be some minor policy announcements on Friday, after we finish writing. Both governments have incentives to find trade agreements that they can present as victories – and there are deals to be done in certain areas. More important is the overall sense of détente. There is unlikely to be any extra tariff disruption between Washington and Beijing for now, as we head into the busy Christmas period for US consumers.

Trade détente cannot hurt Trump's Republican party in the midterms, but it is unlikely to help much either. High gas and diesel prices are the main electoral liabilities. On that front, some had hoped that Trump might persuade Xi to pressure Iran, China's oil provider, to compromise harder – but that looks unlikely.

How sustainable is the AI-or-nothing economy?

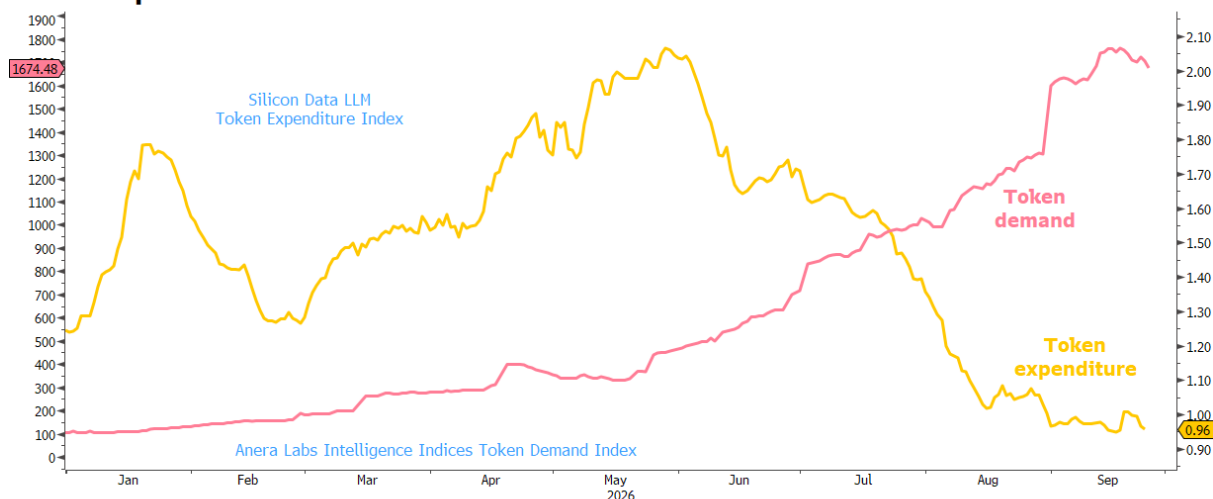
Bonds and smaller stocks sold off, in what looks like the classic 'crowding out' – one area demands so much capital that there is not enough left for other areas. That demand is coming from tech stocks, which are about the only thing keeping markets going. They were buoyed this week by the release of Meta's Muse personal AI agent. Market breadth – the measure of how many stocks are rising – has narrowed substantially again and the AI theme is dominating once more. Indeed, the

fact AI companies now have vast cash piles waiting to be invested into infrastructure is one of the reasons that overall market liquidity is holding up okay, despite central banks turning hawkish.

Something curious is happening with those cash piles. We know AI companies are borrowing billions to build datacentres but, strangely, there are some signs that these datacentres are not being built very quickly. Relatedly, the much-discussed increase in AI computing capacity has not materialised.

Oddly, this slower growth in computing capacity has *not* resulted in higher compute prices. The latest data suggest that demand for AI tokens is not rising faster than the relatively slow increase in supply. If that is right, then a faster pace of datacentre building from AI firms could result in a computing overcapacity.

Token expenditure & demand indicators



Source: Tatton IM, Bloomberg, Ornn, Silicon Data, Anera Labs: G2763
ORNNTOKA Index (Ornn Anthropic Token Price Index) token stuff Daily 31DEC2025-25SEP2026

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If companies have unspent investment capital, there is already enough capacity around and the cost of debt financing is going up, you would expect them to stop raising yet more capital. In other words, the big AI debt spree we thought was impervious to interest rates might become more rate-sensitive after all.

That is one potential route back to the goldilocks environment: the AI spend slows in line with the rest of the economy, allowing hawkish central bankers to back off. The other potential route is a sudden unexpected drop in oil and gas prices – but we will not hold our breath on that one. Without those changes, stock markets will probably get narrower still. That does not preclude investment returns, but it makes them more fragile.

‘Pump and dump’ turned Ponzi

At the start of this year, Türkiye’s stock market was flying. Despite high inflation and a weak Turkish lira, its BIST index outpaced other (non-tech) emerging markets until the spring. Now, it has really hit some turbulence.

Emerging Markets vs Turkiye

Price indices in GBP terms



Several high-profile investment funds have faced liquidity troubles, thanks to their exposure to a handful of thinly traded, illiquid stocks. End investors want out of the funds – but funds like Tera Portföy and Pusula Portföy are unable to pay the redemptions and have blocked the exits. The turmoil led to a broader sell-off in the Turkish stock market and whispers of a financial collapse.

This disconcerting story deserves our usual close attention, for what it tells us about poorly regulated financial markets.

Tera’s Ponzi scheme?

The funds in question have made mystifyingly good returns in recent years, but are now on the verge of collapse. Like many financial booms and busts, the underlying cause seems to be market manipulation.

Türkiye’s pool of available market-traded equity is small; even the biggest companies often have only a small proportion of shares free floating (available for the general investment community). The average free float of Türkiye’s main stocks is just 33.5%.

It appears that certain fund managers took advantage of this by trading highly illiquid shares between themselves, driving up prices in the process. Justice Minister Akın Gürlek labelled them “Ponzi-like structures targeting citizens’ savings through misleading schemes”.

At the heart of the controversy is Tera Portföy, an asset manager that has generated astronomical returns through years of Türkiye's fund boom. Its strategy was to invest heavily in a closely related group of companies, and borrow to invest more, using the debt as 'leverage'. The strategy was highly successful: at one point, Tera Portföy's flagship fund was 660 times the value from its original listing on Türkiye's stock exchange in 2022. Numbers like those inevitably lure in extra investors.

They also inevitably attract scepticism. Tera's fund invested heavily in shares of its parent company, Tera brokerage, as well as the companies the brokerage helped take public. At one point in 2023, Tera stock accounted for 99% of Tera Portföy's fund holdings.

That led to a self-reinforcing loop: the fund's leveraged bets helped the shares it bought rise, boosting the fund's performance. That performance made the parent company more profitable, raising its share price. And because the fund owned shares in the parent company, Tera Portföy's investment returns increased further.

The same illiquidity that buoyed shares for years through inflows sank them in recent weeks when outflows exceeded inflows, leading to a run on the fund. The Turkish government ordered the liquidation of Tera Portföy's \$18bn in holdings in reaction to the scandal, and the company's chairman Emre Tezmen was arrested this week.

MSCI forces Türkiye's hand

It is not as if people did not know about Tera Portföy's tactics. Tezmen has openly defended the high-risk strategy in the past, insisting that the company was doing nothing illegal. Ratings agency MSCI warned in June about "potential coordinated trading" in funds linked to smaller Turkish firms, though did not name Tera specifically. Many suspected that the fund's returns were too good to be true. But, as long as those returns kept coming, investors were still eager to buy in.

The trigger for the current downturn came last month, when Turkish authorities tightened the rules around how much funds could hold in illiquid stocks, or stocks with small free-floats. That forced funds to sell, compounding the liquidity shortage and causing a wider sell-off. Türkiye's central bank was forced to step in to stem the liquidity shortage.

Changing regulation provided the mechanism – but why did the government become aggressive towards the funds so late in the first place? Authorities had been concerned for a while, but one of the reasons for their sudden shift seems to have been MSCI's warning about transparency and coordinated trading. The index-provider warned that failure to act on these activities could see Türkiye moved from "emerging" to "frontier" market, a reclassification equalling a demotion that was likely to see its companies lose billions in international capital tied to MSCI classifications.

Notably, only Indonesia's stock market has a smaller average free float than Türkiye (32% versus 33.5%), and Indonesia itself is under review by MSCI for possible downgrade to Frontier status.

MSCI had good reason to reconsider Türkiye's classification. Even though the funds and stocks in question are outside Türkiye's large-cap index, MSCI's rules about classification specify that countries have to make attempts at improving financial governance and company transparency. This whole episode showed those factors are severely lacking in too many cases.

The value of regulation

Türkiye's BIST index has sunk more than 10% in lira terms over the last month, and the lira continues to weaken against the dollar (though, by no more than its existing steady decline). But the good news is that there is little sign of international financial contagion – even within emerging markets themselves. This looks like a contained and specific Turkish problem. Even within the country itself, there is little sign that the market turmoil might turn into a more serious banking crisis.

However, Türkiye's fund crisis does expose the risk of fraud, even on a large scale. The incentives for fraudsters are obvious, but what is interesting about Tera is how willing people were to keep investing, even when the risks looked clear. It is not hard to work out that leveraged bets on your own stock are unsustainable, but the allure of incredible profits and self-reinforcing price gains seems to have convinced many to put that judgement aside.

That is why well-governed, mature markets like those of the G7 nations have powerful regulators preventing "Ponzi-like structures". That regulation does not entirely remove the risk of bad behaviour – but it does mitigate it. It is no surprise that large-scale Ponzi schemes are more common in countries with weaker financial governance and oversight. There are, of course, intangibles that lessen the risk too: market maturity, well-formed transparent companies and people's familiarity with investing. But clear regulation and enforcement can only help those intangibles too.

SoftBank's big bond bet

AI investment keeps growing. This week, Japanese investment group SoftBank launched \$11 billion of bonds, reportedly to fund further investment in OpenAI, ahead of the ChatGPT maker's stock market listing this year. The debt is rated BB+, falling short of an investment grade rating, so is considered a higher risk 'junk' bond. It is one of the biggest sets of junk bond deals in history, and SoftBank will have to pay a steep yield of up to 9.75% in the longer US dollar tranche. That underlines SoftBank's confidence in OpenAI, in which it is already one of the largest investors.

Buffett's Berkshire Hathaway or Wood's ARK ETF?

SoftBank is an interesting investor. Led by outspoken founder Masayoshi Son, the company has a reputation for making large bets on a mixture of publicly listed and private firms, primarily in tech. The strategy has sometimes backfired – plummeting during the 2000s dotcom crash – but has also delivered some incredible results. SoftBank's most famous success came from a \$20mn investment in Chinese tech firm Alibaba in 2000, which turned into \$60bn when Alibaba went public

in 2014. The Vision Fund that SoftBank manages is the world's largest technology-focussed investment fund. Its Vision Fund 2, formed in 2019 to invest specifically in AI, is not far behind.

Bloomberg's Tara Lachapelle called SoftBank "the Berkshire Hathaway of tech" in 2020, and many have compared Masayoshi Son to legendary (and now, finally, retired) US investor Warren Buffett. However, Lachapelle was actually pointing out how his behaviour had changed, writing that he had "pretty much gone full Robinhood trader" (the name given to the US day-traders that use the free Robinhood platform).

Perhaps a better comparison is with the famous ARK Innovation ETF run by Cathie Wood in the US. Masayoshi Son's focus on bets with high growth potential is similar to Wood's and differs markedly from Buffett's focus on value.

Both SoftBank and Berkshire Hathaway leverage their investments with borrowing, though. Berkshire Hathaway started out as an insurer, so naturally borrowed to invest, while SoftBank's \$11bn total of bonds demonstrates that it is not afraid to use significant debt leverage to back its bets. Meanwhile, ARK is a US-regulated ETF and is barred from using leverage.

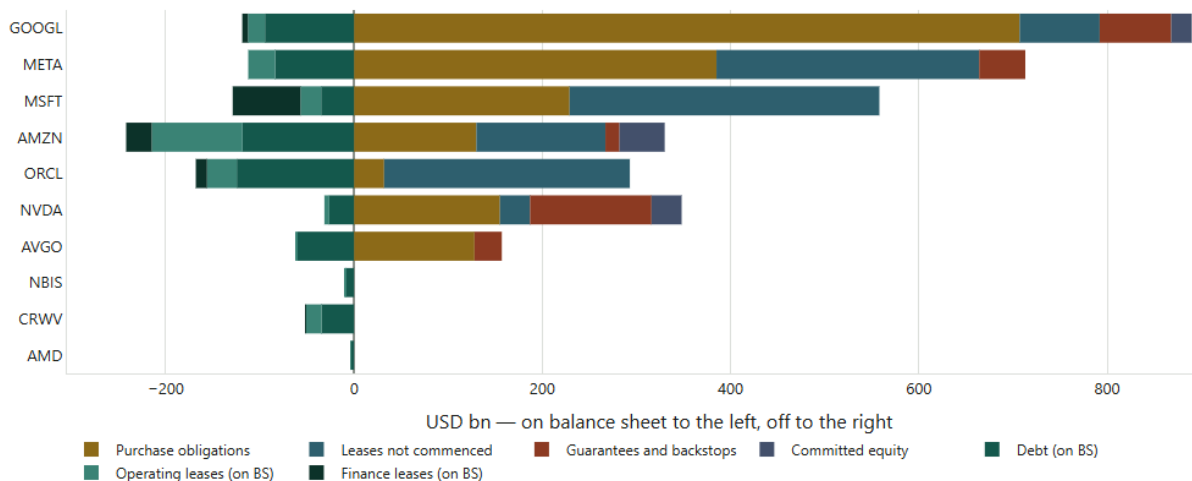
However, SoftBank has more concentrated holdings than either ARK or Berkshire Hathaway, and OpenAI is its current big bet. It has already committed \$65bn to the AI firm, giving it a 13% stake. The fact SoftBank is willing to issue higher-interest debt to expand its OpenAI holdings shows its strength of conviction about this one particular AI firm (against competitors like Google and Anthropic), but it also evidences how the AI theme is spreading across global markets. The bond offering is a test for investors who, in recent months, have seemed a little less enthusiastic about AI's future growth.

The initial response looks good, at least. SoftBank drew over \$20bn of preliminary demand for its \$11bn offerings. That is understandable; the longest-maturity component of the bond package (7.5 years) offers a yield of up to 9.75%.

Leverage going up at both points

Debt raising often catches the headlines because big debt has scary implications, but leveraged investing is a common and often successful strategy. There is nothing inherently wrong with doubling down on your bets – especially if those bets tend to pay off. If SoftBank's OpenAI stake grows close to the rate it has in recent years, for example, it will be highly profitable for the Japanese firm, despite paying nearly 10% in bond coupons.

For us, the interesting part is how SoftBank's leveraged investment mirrors the increased leverage in tech companies themselves. In recent years, the biggest US tech firms have transformed from cash-rich and capital-lite operations to extremely capital-intensive ones. AI-related companies have issued billions in new shares and borrowed even more in bonds in 2026. The chart on the next page demonstrates this by charting their total liabilities – on- and off-balance-sheet, for increased transparency.



The clearest example of this is datacentre firm Oracle – whose credit default swap (CDS, the cost of insuring its bonds against default risk) rose to its highest ever point earlier this year.

Indeed, the increase in debt has contributed to AI firms' share price performance. The heavy injection of investment capital is helping to boost earnings growth and, as a result, share prices across the industry.

What SoftBank's bond shows is that it is not just the companies themselves that are upping their debt piles – but the investors buying into them too. The bonds, and the reported level of demand, show this process is not slowing down just yet.

Rate sensitivity going up

Even with AI's insatiable capital demand, the biggest tech firms still have lower leverage ratios – in terms of earnings to debt – than most companies. Indeed, they have been able to borrow so much largely because their low historic leverage ratios give them the best credit ratings.

As a result, short-term and long-term financing rates have risen beyond affordable levels for many companies and households but the likes of Nvidia or Google owner Alphabet can keep borrowing and spending. Historically, this crowding out effect was usually the result of governments overborrowing, which ultimately led to underinvested, underperforming economies. The particular crowding out effect between tech and non-tech we are currently experiencing is leading to a lopsided economy, despite decent growth in aggregate.

Even for big tech, there are niggling concerns. The main driver for tech stocks' outperformance has been their world-beating earnings growth, which is why the price-to-earnings valuations for the likes of Nvidia have come down. But, as we have written before, part of the reason for those impressive earnings figures is down to investment gains themselves being recognised as earnings – such as Amazon's holdings in SpaceX.

The increase in leverage, on both the company and investment levels, makes those distortions more likely. And, while big tech firms have been largely insensitive to high interest rates up to this point, the fact they now have higher debt loads naturally increases their sensitivity to rates – just as rates themselves are going up.

Increased debt risks in AI have resulted in more volatile credit spreads for big tech firms (the premium of their corporate bond yields over those on equivalent-length government bonds). They came down during the first half of September but have risen again, with Oracle's CDS (and share price) particularly knocked by this week's news about delaying payments on a New Mexico datacentre development. This is not a sounding of the alarm on SoftBank's big junk bond, but investors need to keep track of leverage in AI investing.

Global Equity Markets			25-Sep		Technical	Valuations			
Market		Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100		10674	-0.1	-0.1	→ ↗	3.2	14.0	13.8	12.6
UK FTSE 250		24234	-0.1	-0.1	↗ ↗	3.4	10.4	14.1	13.0
UK FTSE All-Share		5752	-0.0	-0.0	→ ↗	3.2	13.3	13.8	12.6
FTSE Small x Inv_Tsts		6748	+2.1	+2.1	↗ ↗	3.8	21.3	11.9	9.8
EU STOXX ex UK		814	+0.6	+1.0	→ ↗	2.9	17.1	17.5	15.1
France CAC 40		8070	+0.0	+0.4	↘ →	3.2	16.0	15.7	14.1
Germany DAX 40		25366	+0.1	+0.5	→ ↗	2.5	17.4	17.4	13.4
US S&P 500		7706	+1.1	+2.2	↗ ↗	1.1	23.5	21.9	19.1
US NASDAQ comp		26912	+2.0	+3.1	↗ ↗	0.5	31.7	28.4	26.2
Japan Nikkei 225		66364	+2.1	+2.9	↘ ↗	1.3	21.5	24.6	18.8
World Bloomberg		2647	+0.8	+1.9	→ ↗	1.5	20.5	19.1	16.7
China Bloomberg		1247	-1.3	-0.2	→ →	2.4	13.7	14.3	12.5
Emerging Bloomberg		1835	+0.9	+2.1	→ ↗	2.1	15.4	12.0	12.4
FTSE100 Top 6			S&P Global Top 6		(GBP terms)	Global Sectors			(GBP terms)
Company		%	Company		%	Sector	%	Sector	%
Smiths		+10.3	Moderna		+26.8	Tech	+4.2	Staples	+0.7
Metlen Energy & Metals		+9.7	Ibiden		+20.3	Financials	-0.3	Energy	-1.1
Kingfisher		+7.8	Datadog		+19.7	Health	+1.7	Materials	-0.2
Polar Capital Technology IT		+5.4	Everpure		+19.6	Discretionary	+0.3	Utilities	-1.6
Diploma		+5.3	Cadence Design Systems		+16.8	Industrials	+1.7	Real_Estate	+0.3
Lion Finance		+5.2	Intel		+16.2	Communications	+2.2		
FTSE 100 Bottom 6			S&P Global Bottom 6		(GBP terms)	Fixed Income			
Company		%	Company (GBP terms)		%	Govt bond		%Yield	1 wk chg
Autotrader		-7.3	Gen Digital		-21.5	UK 5yr Gilt		4.96	+0.06
Fresnillo		-6.2	Gildan Activewear		-12.1	UK 10yr Gilt		5.40	+0.11
Admiral		-6.0	Paychex		-11.9	UK 15yr Gilt		5.69	+0.12
Airtel Africa		-5.2	Kinross Gold		-11.0	US 10yr Treasury		5.21	+0.22
Investec		-4.3	MGM Resorts International		-10.2	France 10yr OAT		4.72	+0.16
Standard Life		-4.3	Rightmove		-10.2	Germany 10yr Bund		3.63	+0.11
						Japan 10yr JGB		3.07	+0.10
Currencies			Commodities			UK Mortgage Rate Estimates			
Pair	last	%1W	Comdty	last	%1W	Rates (LTV c.75%, no fee)		25-Sep	26-Aug
USD per GBP	1.325	-0.8	Oil Brent \$:bl	105.42	+0.5	UK BoE base rate		3.75	3.75
GBP per EUR	0.861	+0.2	Gold \$:oz	4267	-1.9	2yr fixed		5.08	4.79
USD per EUR	1.140	-0.5	Silver \$:oz	63.79	-3.7	3yr fixed		5.07	4.68
JPY per USD	157.21	-0.4	Copper \$:lb	673.5	+1.2	5yr fixed		4.98	4.61
CNY per USD	6.725	+0.4	Alumnm \$:mt	3236	-1.5	10yr fixed		5.45	5.17
USD per Bitcoin	83,538	+4.1	Agriculture BBG	61.98	-0.8	Standard variable		6.60	6.60

Where possible, prices taken levels at 25 September 3:00 PM and 18 September 3:00 PM. Mortgage rates from moneyfacts.co.uk
LTM PE is the index price as a ratio of last 12 months earnings.

NTM PE is next 12 months earnings, adjusted for historic analyst overoptimism.

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Lothar Mentel

