The Tatton Weekly

Bond yields' multi-facetted messaging

4 September 2026

This week's topics:

Pretty good, considering

August asset returns review

Bonds aren't all about inflation

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Bond villains, Christian Adams, 3 September 2026

Pretty good, considering

We end the week with global stocks once again a little higher than they were last Friday, but bond prices a step lower. Global government bond yields – the inverse of prices – have now been steadily rising for over two months. Higher yields make investors nervous, but those nerves have been largely absent from equity markets. When you throw oil price risks and likely interest rate rises into this mix, the relative calm in stock markets is remarkable.

Don't mind the hawks

Through this week, markets digested the comments of the world's most prominent central bankers from last weekend's Economic Policy Symposium in Jackson Hole, Wyoming. Federal Reserve Chair Kevin Warsh's speech was widely understood as hawkish (preferring higher interest rates), warning about persistent inflation – though he firmly reiterated his belief that the Fed has no business telling markets what its future policies will be.

Warsh was not the only hawk: The European Central Bank mirrored the Fed's tone, while Bank of Japan policymakers have made similar comments. Markets now expect all three central banks to raise rates at their next meetings – a sharp change from the outlook a few weeks ago.

The one dovish exception is Bank of England (BoE) Governor Andrew Bailey, who claims to see only "subdued second-round effects" from the US-Iran war on UK inflation. Markets still moved to price in a BoE hike before the end of the year, most likely after the Fed.

In a separate article, we cover ailing bond markets and their complicated relationship with inflation and interest rates. The relevant point here is that central banks want to raise rates even though many onlookers think that would hurt their economies. Central bankers' resolve could be a credibility issue. Throughout the Strait of Hormuz crisis, they have managed inflation expectations through words rather than actions. But the war has dragged on for over six months with little sign of resolution – so now they need to back up that tough talk with action, even if that damages growth.

If central banks are knowingly curtailing growth, why are equity markets still so calm? Perhaps it is because they see rate hikes as a 'one and done' situation, rather than the usual multiple hike cycle. Perhaps investors realise that even higher interest rates in recent years have not disturbed the key profit motor for global equities: AI spending. Or, perhaps markets are just content because they expect a repeat of the last time US 10-year treasury bonds crossed the 5% threshold, which very quickly mobilised swathes of investors keen on locking-in that rate for 10 years.

High yields strain governments

Stock markets might not be overly worried about bond yields against the strong growth backdrop, but governments certainly are. US Treasury Secretary Scott Bessent's plan to buy back the Treasury's own long-term debt, financed by short-term lending, was a clear recognition that long-term yields are uncomfortably high. The plan also had an air of desperation, and any relief for 30-year US treasury yields was quickly undone this week.

In the UK, debt sustainability fears are at the fore once more, after Andy Burnham's comments on spending made UK government bond (gilt) investors nervous. There is not much we can say about Britain's fiscal outlook right now; the new Prime Minister claims he wants to maintain fiscal discipline, but is remaining tight-lipped ahead of the autumn budget. In any case, gilts are so sensitive to bond market gyrations that he has very little room to manoeuvre.

In our bond article, we discuss the 'doom loop' risk for government finances: yield rises make the outstanding debt pile ever more painful to service, forcing governments to borrow more and subsequently causing further yield rises. The UK is not in that loop right now – but our structurally weak gilt market shows how that might play out. The rise in yields has already reportedly taken £14bn out of Burnham's fiscal headroom. Government finances are deteriorating not directly through policy changes, but through global bond moves themselves.

This is not just a UK problem, but structural imbalances in the gilt market (too many long-term and inflation-linked bonds) mean gilts are more sensitive than others. That sensitivity can also work in reverse: if Middle East tensions calm and oil prices drop, that would automatically give Downing Street more headroom.

A mixed macro bag

Investors have come back from their summer holidays to be greeted by the anxieties of bonds, oil and interest rates. In August, these concerns were alleviated by stellar corporate earnings growth. Now, though, almost all of the major global companies have reported their earnings for the second quarter.

The positive news that contained investors' worries over the summer is no longer flowing. However, the fact we are not getting those strong earnings reports does not change the underlying picture. Corporate profits are unequivocally strong, and judging by the latest business sentiment surveys, that strength should continue.

Geopolitics are a threat to the outlook, of course. The US and Iran have resumed strikes, President Trump "couldn't care less" if Tehran signs a peace deal, and Brent Crude oil is steadily creeping back up to $100 per barrel. Not only that, but Russia is looking increasingly desperate in its war on Ukraine, as shown by the attempted drone attack in Leipzig.

Higher energy prices are inflationary, and we now see evidence of this coming through in food prices too. Central bankers are so worried about this that they seem willing to compress their economies. You might even think that Warsh's hawkishness is a way of showing the White House the economic consequences of its ongoing war.

Resilient corporate profits do not cover up all those risks – but neither do the risks cover up resilient corporate profits. For now, investors are taking the good with the bad. It is a rocky path up, but markets are not out of breath yet.

August asset returns review

August was another decent month for global investors. Global stocks rose 1.9% in sterling terms, while bond returns edged up 0.1%. Considering the background conditions – re-escalation in the Middle East, rising government bond yields and light trading liquidity over the summer holidays – that is a surprisingly strong outturn. Despite all the uncertainties around, corporate earnings growth continues to power markets higher. As the table below shows, all major stock markets except China posted positive returns through the month.

Asset Class	Index	August	12 months	2025	3-yr rolling annualised	5-yr rolling annualised	10-yr rolling annualised
Equities	UK Large Cap	0.2	22.8	25.8	16.3	13.2	9.0
	UK Ethical Large Cap	-0.4	17.9	18.8	11.1	8.7	5.1
	Europe ex-UK	0.9	19.9	26.2	13.2	9.1	9.7
	US Large Cap	2.0	17.6	9.8	17.5	13.6	14.9
	US Technology Large Cap	3.2	18.8	12.8	20.0	13.1	18.1
	Japan	2.6	30.1	16.0	16.0	10.7	9.1
	Global Stocks	1.9	20.1	13.9	16.5	11.6	12.2
	Emerging Markets	2.6	34.2	24.4	17.5	8.7	9.0
	China	-0.7	-1.5	22.6	5.7	-0.9	5.0
Bonds	UK Gilts All Stocks	0.2	1.3	5.0	2.2	-5.0	-1.5
	£-Sterling Corporate Bond Index	0.6	2.9	7.3	5.8	-0.8	1.5
	Global Aggregate Bond Index	0.1	2.2	4.8	3.9	-0.1	1.0
Commodities	Commodity Index	5.3	39.3	-0.3	13.5	16.5	9.6
	Brent Crude Oil Price	2.1	20.6	-24.1	-0.5	3.8	7.1
	Spot Gold Price	12.7	20.5	53.6	25.6	18.0	11.6
	Spot Silver Price	20.8	56.7	131.9	31.3	18.5	11.0
Inflation	UK Consumer Price Index (% Chg for period)*	0.3	2.5	3.4	-	-	-
Cash rates	SONIA 3-Month	0.3	4.0	4.5	4.8	3.5	2.0
Property	Global REITs	-3.8	17.2	0.3	8.2	3.3	3.4
Alternatives	Multi-Strategy Liquid Alternatives	0.5	8.8	0.3	5.3	4.2	3.1
	Bitcoin	24.6	-47.3	-13.5	-	-	-

Source: Morningstar Direct to end of previous month (31/8/26). All returns in GBP.

The summer months can be dry in markets, as traders go on holiday and liquidity tightens. That can lead to relatively small concerns snowballing into larger sell-offs – as we saw in July, when tech stocks sank on fears over the durability of AI earnings growth. But in contrast, August was much calmer.

The last of the second-quarter corporate earnings reports filtered through and confirmed what investors already knew: companies involved in the AI buildout had a great first half of the year, and earnings forecasts show little sign of slowing down. Once again, semiconductor manufacturers displayed particularly strong earnings growth. That led to large US tech shares leading the way last month, gaining 3.2% in sterling terms.

Emerging market (EM) equities were not far behind, gaining 2.6% thanks to the index's huge weighting towards chipmakers TSMC, Samsung and SK Hynix. The 'peak growth' nerves we saw in July faded, and investors once again piled into the AI trade.

Japanese stocks also gained 2.6%, partly thanks to the prevalence of tech stocks, but also as a continuation of Japan's structural improvements to corporate governance. Japan's performance is all the more impressive given that the yen once again slid against the dollar throughout August. The currency lost ground after the historic US-Japan joint intervention to support its value at the end of July, though the yen remains above its pre-intervention nadir.

Yet again, Chinese stocks underperformed the rest of the world, losing 0.7% through August, despite broader positivity in EMs. Growth remains sluggish in the world's second-largest economy. In fact, the longer this continues, the smaller China's impact on broader EM equities. China is no longer the largest country component in MSCI's EM index, for example.

European and UK markets were somewhere in the middle, gaining 0.9% and 0.2% last month respectively. In July, British and European stock indices benefitted from their low weighting towards tech stocks – but that same underrepresentation became a drag in August. Nonetheless, corporate earnings growth remains solid this side of the Atlantic too.

The US-Iran war ratcheted up again last month, with both sides exchanging attacks and President Trump expressing indifference to a deal that might reopen shipping through the Strait of Hormuz. Oil prices climbed and Brent Crude finished August 2.1% higher in sterling terms. Energy traders have long thought that the incentives for both sides to settle are there, but there seemed to be a growing realisation that these incentives might not matter to the US President.

Broader commodities gained 5.3% through the month, led by gold (+12.7%) and silver (+20.8%). We suspect this was less about investors seeking safe havens, and more about the liquidity injection that came from the US-Japan yen intervention. July's 'yen-tervention' saw billions of dollars and euros injected into the financial system, which filtered through into liquidity-sensitive assets last month. The clearest sign of this was Bitcoin's 24.6% rally.

There were suggestions that the 'yen-tervention' might be the start of a deliberate US policy to devalue the dollar – as Trump has previously suggested. It did not work out that way: the dollar mostly held steady against other major currencies and gained into the end of the month.

The liquidity injection did not help government bonds either, with yields rising to decade highs across developed markets. The media commentary put this down to oil prices and inflation, but, as we explain in a separate article, bond moves were not that simple. Yields rose on a confluence of factors, including AI companies' outsized demand for capital, risk perceptions around long-duration bonds and the response of major central banks.

Global central bankers gathered in Jackson Hole at the end of August, in an eagerly anticipated conference on the future of global monetary policy. US Federal Reserve chair Warsh dialled up his hawkish rhetoric (preferring higher interest rates), emphasising that inflation is too high for his liking, while reiterating his disdain for the Fed's forward guidance. Short-term bond yields rose in response, and markets now expect the Fed to raise rates at the September meeting.

The ECB largely mirrored Warsh's hawkish tone, but Bank of England Governor Bailey went against the grain somewhat. Despite Bailey's somewhat dovish remarks (preferring lower rates), markets still expect UK rate rises this year. In fact, long-term UK bonds fared worse than others last month, continuing their underperformance. That is partly down to structural issues we have covered before, but Andy Burnham's comments on spending did not help either.

Despite the rise in yields (and hence falling bond prices, their inverse), bond returns at the index level were flat last month. That is because yields are now high enough that investors can still generate decent returns even when bond prices are volatile.

We also note that, barring a short sell-off mid-month, historically high bond yields did not disturb stock markets too much. High yields make stocks less attractive by comparison, so they are still a concern, but, for now, investors remain focussed on strong corporate earnings growth.

Bonds aren't all about inflation

Government bond yields have risen dramatically since the Strait of Hormuz crisis began in March. In most major markets, long-term yields have reached their highest levels in decades. Most of the commentary puts the sell-off in bond prices (the inverse of yields) down to the oil shock's inflationary impact, or to central banks raising interest rates in response. That explanation does not tell the whole story.

Inflation alone cannot explain higher yields

In theory, bond yields should reflect market expectations for economic growth and inflation (with a few residuals for government creditworthiness and investor preferences). Governments can print money to pay off their debts, so their interest costs should just be an economy's background rate of return. Higher oil prices mean more inflation, meaning higher yields – or so the argument goes.

That is not what has happened in bonds, though. As we wrote two weeks ago, the component of bond yields that is supposed to reflect markets' inflation expectations has stayed relatively stable. Instead, long-term real (inflation-adjusted) yields have spiked. Theoretically, that should suggest growth expectations have improved.

Neither the growth nor inflation explanations match up with the economic data. Despite higher oil and gas prices, core inflation – excluding volatile elements – has been well-behaved across the world. That suggests underlying inflation pressures are manageable. And while growth has been resilient through the Iran war, the most recent data point to slightly slower growth – certainly not justifying higher real yields.

Even the central bank explanation is more complicated than it seems. A more hawkish central bank (preferring higher interest rates) puts pressure on short-term bond yields, but the bond spike has come in long-term yields. You could even argue that higher rates, together with softer macroeconomic fundamentals (plateauing growth and inflation), should be a good thing for bonds.

More sellers than buyers

If the fundamentals are supportive for bonds, why are yields rising? There is a confluence of things going on here, but they broadly come under two themes: intense overall demand for investment capital, and investor apprehension about the risk-return trade-off available in bonds.

Tech companies are borrowing vast sums to invest in AI, meaning there is ample supply of corporate bonds with high credit ratings. That saps demand from government bond markets. Historically high government debt levels exacerbate the problem – but this is not as simple as 'blame irresponsible governments'.

Our measure of government credit risk (the difference between bond yields and interbank lending rates) has been fairly static recently, suggesting that markets are no more worried about fiscal policy than they were a few months ago. The problem is that high debt levels could themselves lead to more borrowing, if yields keep rising and nations need to borrow more just to cover their interest costs. The risk of this so-called 'doom loop' is what troubles bond investors.

You would expect historically high long-term yields to tempt bond buyers, but that is not happening – yet. Bondholders are not shifting their short-term bond holdings to higher-yielding long-term bonds, and equity investors are not swapping stocks for bonds. For stocks and bonds specifically, each asset class's investors have become entrenched. Perhaps investors are scarred by bond price volatility in recent years: volatility-adjusted returns for bonds have been weak, particularly compared to equities, even if bond yields themselves are attractive.

If yields keep rising, however, they will eventually become attractive enough to tempt investors back into bonds. That is why we should not get carried away with the 'doom loop' fear. Many institutional investors already recognise that bonds are a bargain; they just think they might be more of a bargain tomorrow. That natural limitation might also explain why equity markets have been relatively unfazed by bond volatility.

The timing depends on central banks

It is hard to say when bonds might become attractive enough to pull investors back in. The timing depends heavily on central banks. Higher interest rates should mean slower growth, which should mean lower yields – but investors will not want to buy in until the point the Federal Reserve or ECB turns back to dovish (preferring lower rates).

Orthodox monetary theory suggests that policymakers should look through short-term supply-side shocks. In that sense, central banks turning hawkish during an oil crunch is slightly odd. They are doing it for two reasons: the Strait of Hormuz crisis is looking increasingly like a chronic problem, not an acute one; and central bankers are still reeling from the ‘transitory’ debacle in 2022, when their response to post-pandemic supply shocks was too slow and damaged their credibility.

Restoring that credibility could mean raising rates even if the underlying economy would suggest otherwise. If energy supplies deteriorate to the extent many warned about (and, crucially, that has not happened yet), then the only realistic way to slow headline inflation is to severely compress consumer demand. In other words, if the war continues and central banks are serious about their 2% inflation targets, the only logical conclusion is to deliberately weaken their economies.

Up to this point, central banks have managed inflation expectations mostly by talking the talk – without actually raising rates. If the Strait of Hormuz crisis persists, they could be forced to walk the walk. For bonds, the pressure is not so much about inflation itself, but what the threat of inflation might force policymakers to do – and whether strong economic growth, which has balanced the equation so far, begins to falter as a result.

Tatton Investment Management

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Global Equity Markets	04-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	10822	+0.0	+0.0	⬀ →	3.2	14.1	12.9	12.7
UK FTSE 250	24541	-1.6	-1.6	➚ ⬀	3.4	9.2	13.0	13.0
UK FTSE All-Share	5831	-0.1	-0.1	⬀ →	3.2	13.2	12.9	12.6
FTSE Small x Inv_Tsts	6734	-1.2	-1.2	⬀ →	4.1	21.9	9.9	9.9
EU STOXX ex UK	830	-0.7	-0.3	⬀ ⬀	2.9	17.3	15.5	15.1
France CAC 40	8288	-1.3	-0.9	→ →	3.1	16.4	14.2	14.1
Germany DAX 40	26118	-1.5	-1.0	➚ ⬀	2.5	17.8	15.3	13.4
US S&P 500	7738	+0.2	+0.4	⬀ ⬀	1.0	23.6	19.5	19.1
US NASDAQ comp	26587	+0.5	+0.8	→ ➚	0.5	31.1	24.1	26.2
Japan Nikkei 225	65021	-2.1	+0.6	⬀ ➚	1.3	21.6	20.7	18.8
World Bloomberg	2675	+0.1	+0.4	⬀ ⬀	1.5	20.8	16.8	16.7
China Bloomberg	1290	-0.9	-0.7	→ →	2.3	14.1	11.5	12.5
Emerging Bloomberg	1840	+0.3	+0.5	⬀ ➚	2.1	15.4	10.3	12.5

FTSE100 Top 6		S&P Global Top 6	(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%	Sector	%	Sector	%
Vodafone	+6.5	Robinhood Markets	+17.8	Tech	+1.2	Staples	+0.1
Airtel Africa	+5.0	Kansai Electric Power	+15.9	Financials	+1.2	Energy	+2.0
BP	+3.9	Dell Technologies	+15.2	Health	+0.2	Materials	-1.3
Tesco	+3.7	Banco do Brasil	+11.9	Discretionary	-1.6	Utilities	+0.1
Standard Chartered	+3.4	Sandisk	+11.6	Industrials	-1.1	Real_Estate	-0.5
HSBC	+3.4	Skyworks Solutions	+11.4	Communicatic	+0.1		

FTSE 100 Bottom 6		S&P Global Bottom 6	(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
Experian	-8.1	Edison International	-20.1	UK 5yr Gilt	4.62	+0.01
Bunzl	-5.4	Fair Isaac	-19.7	UK 10yr Gilt	5.12	+0.06
Babcock Int'l	-5.4	Lululemon Athletica	-16.9	UK 15yr Gilt	5.46	-0.02
Severn Trent	-4.8	PG&E	-15.8	US 10yr Treasury	4.77	+0.05
United Utilities	-4.8	Autodesk	-14.7	France 10yr OAT	4.18	+0.05
Admiral	-4.7	Ciena	-14.6	Germany 10yr Bund	3.32	+0.05
				Japan 10yr JGB	2.91	-0.01

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	04-Sep	05-Aug
USD per GBP	1.351	-0.3	Oil Brent $:bl	93.81	+5.2	UK BoE base rate	3.75	3.75
GBP per EUR	0.860	+0.3	Gold $:oz	4434	-2.5	2yr fixed	4.79	4.79
USD per EUR	1.161	+0.0	Silver $:oz	66.17	-3.5	3yr fixed	4.78	4.68
JPY per USD	156.08	-2.4	Copper $:lb	666.2	-0.3	5yr fixed	4.75	4.61
CNY per USD	6.707	-0.3	Alumnm $:mt	3315	+2.5	10yr fixed	5.15	5.17
USD per Bitcoin	79,427	+1.0	Agriculture BBG	64.22	-1.1	Standard variable	6.60	6.60

Where possible, prices taken levels at 04 September 3:00 PM (today) and 28 August 3:00 PM. Mortgage estimates 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.

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