TREASURY YIELDS TOUCH 5% WHAT'S NEXT?

By Jennifer Appel, CFA, Principal, Senior Investment Director

September 2026

With Treasury yields hovering near 5%, investors are taking a closer look at whether the move signals a fundamental shift in the outlook for U.S. government debt.

At NEPC, we believe the recent rise in yields should prompt investors to revisit—not retreat from—duration. In our view, the shift in rates reflects a combination of economic, geopolitical, global bond-market and policy forces rather than faltering confidence in U.S. Treasuries. At the same time, higher real and nominal yields have improved the potential returns from safe-haven fixed income, marking a potentially attractive entry point for investors.

Since June 30, the 10-year Treasury yield has increased close to 50 basis points sitting above 4.9%, with the 10-year real yield now hovering close to 2.5%.[1] While market chatter attributes this rise in rates to the expanding federal deficit and rising inflation expectations, we believe the recent upward momentum in long-term rates is largely a result of rising real interest rates across the Treasury curve. We view core inflation levels as remaining relatively stable suggesting that the increase in nominal yields is not driven by investors anticipating a sustained rise in inflation.

In addition, we believe the rise in real interest rates cannot be attributed to just one factor but a wider range of considerations, including a strong nominal growth environment in the U.S., higher oil prices fueled by an escalation in U.S.-Iran hostilities, rising bond yields in Japan, and ongoing policy uncertainty from the Federal Reserve and the Department of Treasury. Additionally, the Treasury's recent announcement[2] on buying back 10- to 20-year Treasury bonds may have inadvertently stoked market anxiety by signaling potential concern from officials regarding the prevailing yield environment. As a result, we do not believe the higher rates are driven by concerns about the U.S. federal deficit or the role of U.S. Treasuries as a safe-haven asset.

At NEPC, we have become increasingly favorable on Treasuries in recent weeks, and view the current environment as a potential opportunity to lock in attractive yields—particularly if we see the 10-year yield move beyond the 5% threshold. We recommend investors consider leaning into duration in today's environment, as current real and nominal rates could provide meaningful income potential.

We continue to advocate for dedicated strategic exposure to safe-haven assets to provide liquidity and help support portfolios through periods of economic stress. The current rate environment presents a compelling opportunity for investors to assess whether their portfolios have adequate safe-haven exposure. At current yields, it may also be appropriate for investors with larger fixed-income allocations or lower return targets, to hold Treasury exposure modestly above strategic targets.

We will continue to monitor the situation closely and will send out additional updates as our views evolve. If you have any questions or for additional guidance, please reach out to your NEPC consultant.

[1] FactSet, U.S. Department of the Treasury; as of September 21, 2026.

[2] U.S. Department of the Treasury. Press Release; "Treasury Announces Increased Sizes of Nominal Long-End Liquidity Support

IMPORTANT DISCLOSURES

617.374.1300 | www.NEPC.com | @NEPC_LLC