

The global bond reset to a structurally higher yield regime

Florian Späte, Martin Wolburg, Paolo Zanghieri

19 October, 2026

Our Focal Point series explores topical issues on macro, markets and investment

- Global bond markets have moved towards a structurally higher-yield equilibrium as persistent fiscal demands, greater capex needs and fading central-bank support rebuild term premia.
- Our base case allows for tactical rallies as stretched key rate expectations unwind, but rising term premia should keep long-dated yields volatile and higher for longer.
- A strategic duration overweight therefore remains premature, while sell-off overshoots can create tactical entry points; carry, selectivity and active risk management should drive portfolio returns.

Global bond markets are undergoing a structural repricing. Persistent fiscal pressure, inflation uncertainty due to recurring supply shocks, heavier funding needs and fewer rate insensitive buyers are pushing yields towards a higher equilibrium. Favourable geo-political developments may interrupt this adjustment but are unlikely to reverse it.

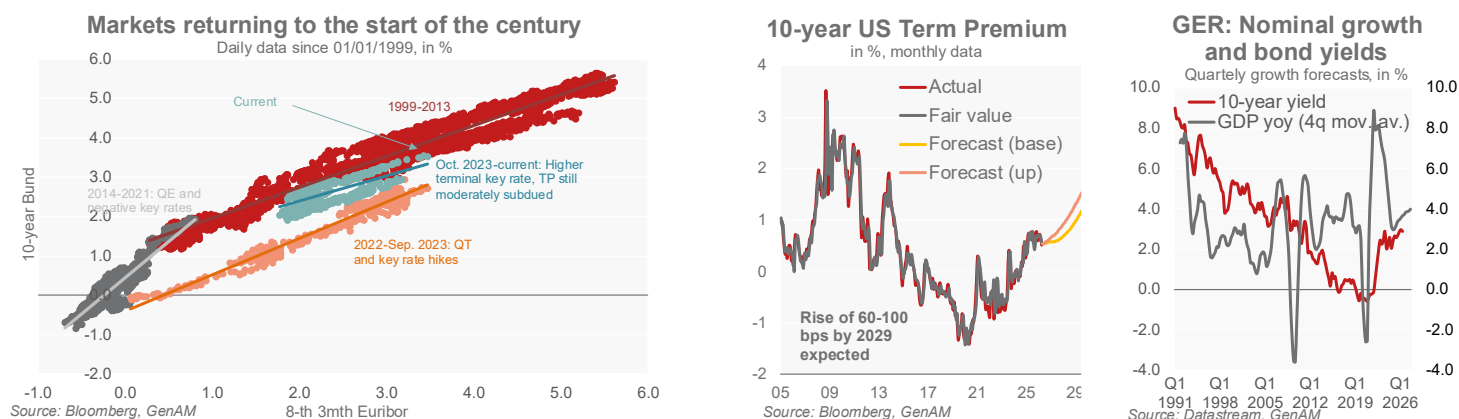
Our baseline is therefore a durable high-yield regime, not an uninterrupted rise in yields. Markets will still rally when economic growth disappoints, risk conditions deteriorate and/or policy expectations soften, but investors should not assume that every sell-off will lead back to the exceptionally low yields of the previous cycle.

Why yields are structurally higher

The initial withdrawal of monetary accommodation pushed both expected policy rates and term premia higher. Looking ahead, however, the two components may diverge: stretched policy-rate expectations leave scope for some cyclical reversal, while structural fiscal, inflation and supply pressures should continue to lift the term premium.

Policy expectations look overly hawkish: 5y3m OIS rates in the US and the euro area temporarily rose to around 4.75% and 3.5%, respectively – about 100 bps above our estimates of the corresponding neutral rates and therefore clearly too high. As markets price out this excessive tightening, yields should decline noticeably, particularly at shorter maturities. A durable resolution of the Middle East conflict would reinforce this risk scenario by lowering energy prices and inflation pressure. By contrast, and more structurally, the term premium should continue to rise as investors are faced with greater inflation uncertainty and growing bond supply. This combination of upside potential for yields at

the long end and downside potential at the short end makes curve steepening trades attractive.



Based on our proprietary model, which estimates the 10-year US term premium using bond-market volatility, the foreign share of US Treasury holdings, inflation expectations and the budget deficit as explanatory variables, we expect the term premium to rise by around 60 bps over the next three years. If inflation were 0.5 pps higher and the budget deficit 1.5 pps wider than in our baseline, the increase could reach up to 100 bps. This rise should offset an eventual easing in stretched policy-rate expectations. Near-term rallies can therefore coexist with a structurally higher and more volatile yield environment.

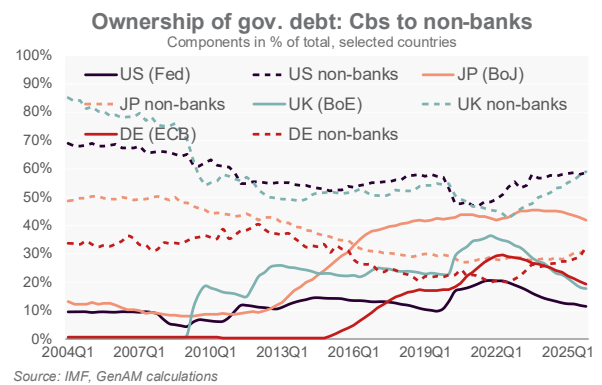
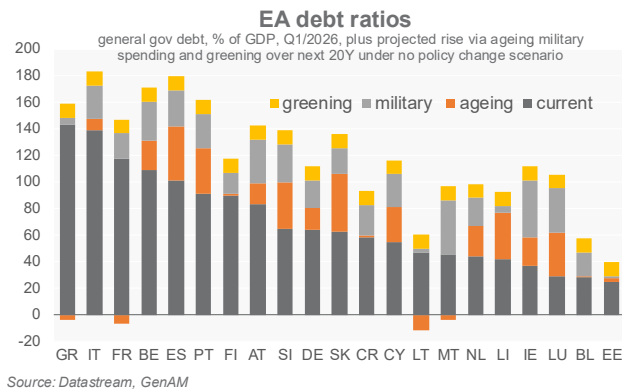
Fiscal pressure increasingly reflects structural commitments rather than temporary cyclical support. Ageing populations, higher defence spending and the climate transition will keep public expenditure elevated across advanced economies, and political fragmentation reduces the likelihood of bipartisan, long-lasting fiscal adjustments, especially in the US. Wider deficits will translate into heavier issuance just as central banks shrink their balance sheets, forcing private investors to absorb more government debt. In the US Fed's holdings of Treasuries have stabilised at around 21% of GDP, and we think that the shrinking of the balance sheet is finished: this would remove some upward pressure on rates. The new Fed Chair Warsh was in the past keen to reduce more drastically holdings and has tasked a group of researchers to assess the central bank's balance sheet policies. The results will frame the discussion within the FOMC, and we do not expect changes to the balance sheet policy in the medium term.

In the euro area, our base case remains that the ECB treats the deposit facility rate as its primary instrument for setting the policy stance, while the run-off of its APP and PEPP portfolios proceeds passively, in a measured and predictable way, in the background. The headwinds from the ECB's QT will likely be felt for some more time. In any case, QT reduces excess liquidity and triggers higher money market rates if it falls below a certain threshold in the prevailing floor system. This threshold is uncertain because reserve demand depends on regulation, banks' liquidity preferences, the distribution of reserves and the operating framework. [ECB staff](#) research finds that the amount of excess liquidity required to avoid upward pressure on short-term rates has increased over time and that in the 2014 to 2020 period this threshold was in the € 1tr to € 1.5 tr range. The current excess reserve level of € 2.1 bn liquidity is seen as consistent with a desired level of short-term interest rates by the [ECB](#). That said, there are signs (from the ECB's recent [survey on bank treasurers](#)) that the preference of banks for reserve demand increased

and that a further fall of excess liquidity could create unwarranted upward pressure on short-term rates in the nearer future. This will at some point in time induce the ECB to stop QT (of the APP and PEPP) or to set up a new portfolio with the main purpose to keep excess liquidity ample. Following previous [ECB communication](#), we expect the latter to happen.

The rise in yields creates a negative loop, as servicing the debt becomes more expensive, making it harder to bring deficits back to levels that can stabilise elevated debt ratios. Governments must compete more intensely for savings as private investment in AI, infrastructure and the energy transition expands. Strong public and private demand for capital supports higher equilibrium yields across markets, making the repricing global.

A larger bond supply and greater fiscal uncertainty are sufficient to raise the compensation investors demand for holding long maturities. The impact should be most visible at the long end, favouring steeper curves and a persistently higher yield buffer.



In as much as QT continues the retreat of central banks reinforces this effect, as price-sensitive private investors increasingly set market-clearing yields. Therefore, government bonds will react more sharply to shifts in supply, inflation and political risk.

Developments in Japan reinforce the global transmission channel, given the sheer size of the country's foreign bond holdings. Higher JGB yields have sharply shifted the yield differential between domestic bonds and FX-hedged foreign bonds in favour of JGBs, materially improving their relative attractiveness for Japanese investors. This helps explain why Japanese net purchases of foreign bonds have declined in recent years and turned negative in 2026. At the same time, the FX-hedged yield advantage of JGBs for foreign investors has compressed, reducing the incentive to allocate to Japanese bonds. For euro-based investors, for example, the hedged pick-up on 10-year JGBs over Bunds has fallen by around 70 bps over the past three years to only about 30 bps. Combined, these shifts in cross-border demand can reduce demand for global bonds and contribute to higher market-clearing yields.

The convenience yield of government bonds is also eroding as fiscal uncertainty weakens their perceived safety. As this non-financial benefit declines, sovereign issuers must offer higher yields, adding persistent upward pressure, especially at longer maturities.

A higher neutral interest rate would reinforce the reset. AI-related productivity gains could lift potential growth, while heavier government borrowing would keep demand for capital high, in part crowding out private investment. Productivity gains from wide AI-

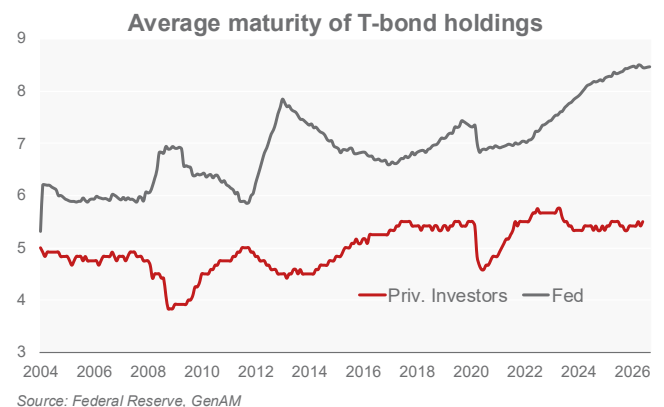
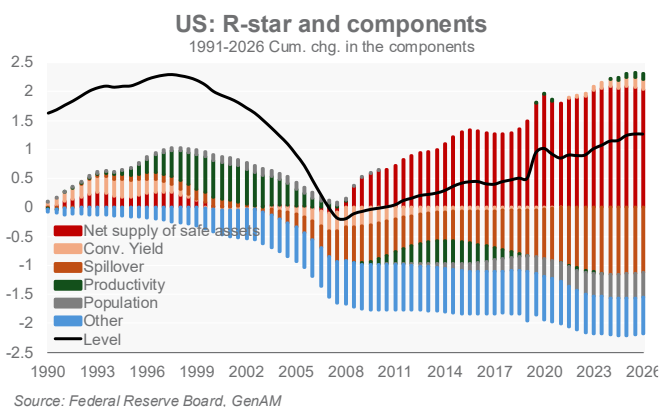
adoption should be deflationary in the medium term, but it is hard to time when this effect will show up meaningfully. Meanwhile, fragmentation and geopolitical instability threaten more volatile inflation, making it harder for central banks to stabilise prices without placing material pressure on growth.

Policy support could therefore become less reliable, increasing the compensation investors demand for long-term uncertainty. Balance-sheet policy could amplify this pressure: if the Fed shortens the maturity profile of its holdings (as envisaged first by former chair Powell and confirmed by Warsh), private investors would have to absorb more long-duration Treasury risk, pushing term premia higher.

Financial repression, in the form of a restart in bond buying programs or tweaks in the banking regulation to facilitate government securities absorption could be implemented as last resort: however, the resulting increase in money supply could in principle complicate further inflation fighting,

Investment implications

Our baseline is not a further structural rise in yields, but a persistently higher yield regime in which structural forces prevent yields from sustainably returning to the exceptionally low levels of the previous cycle. With stretched policy-rate expectations leaving more room for yields to decline at the short end, while persistent term premium pressure limits the downside at the long end, curve-steepening trades offer the clearest expression of this view. This does not imply a short duration position: caution on structurally long duration can coexist with tactical opportunities to add duration when sell-offs overshoot.



A renewed sell-off is the more plausible risk if inflation or fiscal deficits surprise to the upside, while downside risks to yields stem from the financial-stability pressures created by high and rising government debt, a much sharper growth slowdown, durable disinflation or credible fiscal consolidation. We therefore consider a strategic duration overweight premature, although overshoots can create tactical opportunities to add duration and capture rebounds.

For portfolios, higher starting yields improve carry and provide a larger cushion against moderate rate increases, but they do not remove duration risk. Investors should prioritise selectivity and actively manage exposure across duration, credit and equities. In this new equilibrium, returns will depend less on broad policy support and more on disciplined entry points, income and relative-value decisions.

 IMPRINT**Issued by:**

Generali Asset Management S.p.A.
Società di gestione del risparmio, Research Department

Head of Research:

Vincent Chaigneau

**Head of Macro & Market
Research:**

Dr. Thomas Hempell, CFA

Team:

Elisabeth Assmuth | Research Operations
Elisa Belgacem | Head of Cross-Asset Quant & Dev, Senior Credit Strategist
Jakub Krátký | GI CEE Financial Analyst
Michele Morganti | Head of Insurance & AM Research, Senior Equity Strategist
Vladimir Oleinikov, CFA | Senior Quantitative Analyst
Dr. Thorsten Runde | Senior Quantitative Analyst
Dr. Florian Späte, CIIA | Senior Bond Strategist
Guillaume Tresca | Senior Emerging Market Strategist
Dr. Martin Wolburg, CIIA | Senior Economist
Paolo Zanghieri, PhD | Senior Economist

“Edited by the Macro & Market Research Team. The team of 12 analysts based in Paris, Cologne, Trieste, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues. The team translates macro and quant views into investment ideas that feed into the investment process.”

This document is based on information and opinions which Generali Asset Management S.p.A. Società di gestione del risparmio has obtained from sources within and outside of the Generali Group. While such information is believed to be reliable for the purposes used herein, no representation or warranty, expressed or implied, is made that such information or opinions are accurate or complete. The information, opinions estimates and forecasts expressed in this document are as of the date of this publication and represent only the judgment of Generali Asset Management S.p.A. Società di gestione del risparmio and may be subject to any change without notification. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. Generali Asset Management S.p.A. Società di gestione del risparmio may have taken or, and may in the future take, investment decisions for the portfolios it manages which are contrary to the views expressed herein. Generali Asset Management S.p.A. Società di gestione del risparmio relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. It is recommended to look over the regulation, available on our website www.generali-am.com. Generali Asset Management S.p.A. Società di gestione del risparmio is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro Italiane.