

Views on Recent Market Volatility

Last month, in our market commentary, we suggested that a Fed stripping out forward guidance would create more volatility. Given the recent moves in rates, we sat down with Academy's CIO, Seth Rosenthal, to get his perspective on the latest market volatility.

Can you provide some perspective on the size of the recent moves?

The 10-year is up over 100 bps in six months, from about 4.04% at the end of February to 5.20% today. That is rare, but not unprecedented. We have seen moves of this magnitude a handful of times over the past 30 years. However, roughly half followed significant market shocks, including the periods after LTCM, the GFC and COVID.

What is notable this time is that the move appears to be driven by a combination of factors: a repricing of Fed policy, rising term premium, inflation concerns, and a substantial increase in government and corporate issuance. The common theme here is uncertainty.

Is this isolated to the U.S. market?

No. The long-end selloff is global and happening simultaneously across countries with very different monetary policies. UK 10-year Gilts are around 5.40%, a post-2008 high. France is near 4.70%, the highest since 2008. German Bunds are around 3.60%, the highest since 2011. Japan's 10-year is above 3.00% for the first time since 1996.

For three decades, JGBs had the lowest global rates. Japanese banks, insurers and pensions could fund cheaply at home and buy Treasuries, Gilts and Bunds. With the BOJ tightening and a more expansionary government in Tokyo, that trade is unwinding. One of the largest sources of overseas demand for Treasuries now has a reason to keep more money at home, and markets that relied on that bid are now repricing.

Even after hedging the currency back into dollars, Treasuries remain among the lowest-yielding major government bonds, alongside Germany. Japanese and UK government bonds offer higher yields. To keep attracting global buyers, U.S. Treasury yields have had to move higher to remain competitive with other developed-market government debt.

A Global Repricing: 10-Year Government Bond Yields

Country	Current (Sept 24, 2026)	3 Mos Ago	Change (bps)	Milestone
UK	5.38%	4.70%	+68 bps	<i>Post-2008 high</i>
US	5.20%	4.37%	+83 bps	<i>19-year high</i>
France	4.69%	3.63%	+106 bps	<i>Since 2008</i>
Germany	3.60%	2.85%	+75 bps	<i>Since 2011</i>
Japan	3.08%	2.62%	+46 bps	<i>Since 1996</i>

Source: Tradeweb

Is there an attractive entry point?

The front end is repricing to tighter Fed policy, but the long end is repricing risk: fiscal deficits, record government and corporate issuance, with global issuance approaching \$5 trillion this year, much of it tied to AI infrastructure, and an oil shock that keeps inflation risks alive. That is term premium, the compensation investors demand for uncertainty, and it is rising everywhere at once. That is why we are not focused on a specific yield level as a trigger. We see value when we get clarity, and right now we do not have it on the three things that matter most: the war, inflation and the Fed.

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Why have the moves become more violent?

One reason is the amount of leverage that has built up in the Treasury market. A good example is the cash-futures basis trade. In simple terms, hedge funds buy Treasury bonds with borrowed money while simultaneously selling Treasury futures. They are capturing a small price difference between the two markets, so they use significant leverage to make the trade worthwhile. Estimates suggest the trade has grown to more than \$1 trillion. The exact size is difficult to measure, but the scale is large enough to matter. Because the Treasury positions are financed with short-term borrowing, a sharp move in rates can force investors to reduce positions. That selling can push prices further in the same direction and create another round of selling. In other words, leverage can turn a relatively orderly move into something much more violent.

There are other forces at work as well. When rates rise, mortgage investors can find themselves with more interest-rate exposure than they want and may sell Treasuries to hedge that risk. Trend-following strategies can also add to positions as a move gains momentum. Together, these forces can amplify what starts as a fundamental repricing.

And there is one more important factor. Real-money investors came into this period positioned for lower rates and eventual Fed cuts, our own view included. When that outlook changed, some of those positions had to be unwound. That selling added fuel to a move that was already underway.

Given the move, are there other parts of the economy that concern you?

The clearest victim is housing with the 30-year mortgage recently crossing 7% for the first time in nearly 2 years. When the 10-year stays elevated and MBS spreads refuse to tighten, mortgage rates can continue grinding higher even as demand softens. In effect, the Fed's decision to pull back on guidance is taxing housing through mortgages spreads. Additionally, homeowners with a 3% mortgage don't have much incentive to move, leaving the housing market frozen.

Does the move continue, and where does it stop?

It could continue, particularly if oil continues grinding higher around the Strait of Hormuz concerns, U.S.-Iran talks make little progress, and another hot inflation reading turns an energy shock into an expectations problem. Weak Treasury auctions, like this week's soft 5-year, would add to the pressure, as would a Fed signaling another hike.

But the move can reverse quickly if we get a real ceasefire (after the election) that allows oil prices to fall, and inflation reports showing the energy pass-through is fading, or a growth scare that shifts the market from inflation fear to recession fear. So where does it stop? It's all about clarity and at this stage markets don't have it, between the war, inflation and the Fed. Oil may be the first piece to move because it feeds directly into both the inflation and Fed questions.