AllianceBernstein

September 2026

Long Story Short

“The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday’s logic.” —Peter Drucker

In our midyear review last month, we wrote that investors should focus less on forecasting headlines and more on understanding the structural forces driving growth, interest rates and credit markets. Over the past several weeks, three developments have reinforced that view: long-term global bond yields have risen to multidecade highs, policymakers have become increasingly willing to intervene when those moves become disorderly and the US economy has become increasingly influenced by an extraordinary AI investment cycle. Together, they help explain why we remain constructive on bonds, but increasingly believe where investors own duration matters.

Key Takeaways

1. **Long-term yields are rising for structural reasons**. Stronger growth, fiscal uncertainty, heavy bond supply and AI-driven capital investment are lifting real yields and term premiums globally.
2. **We remain constructive, but where investors own duration matters**. We favor front and intermediate maturities, where investors can earn attractive income, while limiting exposure to long-end uncertainty.
3. **Divergence is creating opportunity for active investors.** Different economic cycles, yield curves and credit valuations favor global diversification and security selection across rates and credit.

Market Recap: What Has Happened in Markets Recently?

August was a quiet month on the macro calendar but not in fixed-income markets. Long-term government yields across several developed markets rose to levels not seen in decades (*Display 1*). In the US, the yield on the 30-year Treasury reached its highest level since before the global financial crisis (*Display 2*) and the US Treasury auctioned 30-year bonds at the highest yield since 2001.

It is tempting to attribute higher yields to expectations for more restrictive central bank policy given the inflation impulse of higher oil prices this year. However, we believe something more structural is occurring, as demonstrated by the higher levels of real yields and term premiums in today’s global bond curves.

First, stronger growth expectations have lifted real yields and have accounted for the most visible increase in nominal rates this year (*Display 3*). AI investment, a resilient consumer in the US, and stabilization of the labor market and business cycle have bolstered growth forecasts. Real yields share a relationship with growth rates, as prospects of productive investment spur borrowing and lift the cost of capital that borrowers are willing to accept.

Second, markets are demanding a premium for elevated uncertainty in the face of fiscal anxiety, less central bank messaging and geopolitically driven inflation risk. Governments are running large fiscal deficits and issuing substantial amounts of debt. Less forward guidance and an uncertain reaction function from the Federal Reserve are increasing the volatility around macro releases. And inflation uncertainty has increased with energy prices vacillating around geopolitical developments. The result is that investors require more compensation to lend for 20 or 30 years compared to shorter periods—that differential, called term premium, is becoming a larger part of long-end yields.

Third, and maybe the most important medium-term factor for capital markets, is AI’s impact. Hyperscalers and data centers have issued more than $330 billion of investment-grade bonds this year, more than triple 2025’s issuance full-year levels (*Display 4*). This appetite for capital, much of which has come in long-dated maturities, has proven price-insensitive to the extent that it is moving rates for the economy at large. Investors have demanded wider spreads to absorb the unrelenting issuance and higher absolute yields have forced the entire long end to cheapen to maintain relative value.

What we saw over the course of August was that policymakers are taking notice, as the consequences of high long-term yields extend well beyond the Treasury market. Higher yields feed into mortgages, corporate borrowing costs, equity valuations and government interest expense. For that reason, policymakers have become increasingly sensitive to disorderly moves in global bond and currency markets. Recent actions by the US and Japan illustrate that sensitivity; the US Treasury has taken steps intended to improve liquidity in longer-dated Treasuries, while the US and Japan coordinated operations to stabilize the yen. Both of these actions are significant in their break from precedent and the signal they send, more than their substance. They signal that policymakers recognize the financial and economic consequences of disorderly markets and have tools available to improve market functioning. But they cannot permanently suppress long-term yields if investors continue to demand greater compensation for fiscal deficits, inflation uncertainty, heavy bond supply and duration risk.

For long-term yields to sustainably decline, we likely need some combination of lower energy prices, softer growth and labor markets, better-anchored inflation expectations, less long-duration government issuance and ultimately greater fiscal credibility. Some of those appear considerably more likely than others. For investors, though, the good news is that the opportunity set in fixed income is much broader than the long end.

Portfolio Manager Perspectives: What Does AB's Portfolio Management Team Think?

Global long-end rates have rightfully attracted attention, concerning investors with questions about the prospects of bonds going forward. We believe there is substantial opportunity for fixed-income investors, but selectivity in where investors own duration is exceedingly important.

International diversification has proven effective this year with global bond indices across rates and credit outperforming US-centric versions as economies react divergently to the same news. For example, Europe's economy remains more exposed to an oil shock than the US because of its greater reliance on foreign oil, while many oil-producing emerging markets benefit.

We remain constructive on US duration, but our conviction is greatest in the front and intermediate portions of the Treasury curve. This part of the curve offers a more attractive risk/reward than the long end because it is more directly anchored by Federal Reserve policy, which has already priced in a significant amount of tightening despite the core inflation outlook continuing to improve outside of energy prices. Wage growth has slowed from its post-pandemic highs, while productivity gains have helped contain unit labor costs. This is important, because persistent wage pressure is one of the primary mechanisms through which inflation can become entrenched. Without a renewed acceleration in labor costs, we think it will be difficult to generate the type of persistent wage-price inflation that would require the Fed to begin a meaningful new tightening cycle, making this environment different from 2021–2022.

The front and intermediate curve, therefore, offers an attractive asymmetry: investors can earn meaningful income today while retaining upside if growth or labor markets weaken enough to eventually produce rate cuts. The long end presents a more complicated equation. To own a 20- or 30-year Treasury, investors must get inflation and the Fed broadly right. But they must also make judgments about fiscal policy, Treasury supply, productivity, equilibrium real rates and the appropriate term premium. We have considerably more confidence that the Fed is near its ceiling than we do that long-term Treasury yields are near theirs.

Strong productivity growth from AI investment adds another wrinkle. It is positive for the inflation outlook because it allows wages and output to grow without generating as much inflation. But if AI and productivity ultimately raise the economy's long-term growth potential, they could also support higher equilibrium real interest rates. In other words, the same productivity story that reduces inflation risk may not necessarily be bullish for 20- and 30-year Treasury yields. Conversely, if AI-related investment eventually slows because expected returns fail to materialize, the implications could extend well beyond technology: weaker capital spending, slower credit creation and softer economic growth would likely become increasingly important for the broader economy and bond market. That is why we are closely watching whether strength is broadening beyond AI, particularly profits outside the AI complex, non-AI fixed investment, and labor and household income.

In the near term, the substantial dispersion in valuations across investment-grade hyperscaler issuance, as well as within the "picks and shovels" of high-yield enablers, is creating opportunities for active management (*Display 5*). We have recently favored select parts of the data center ecosystem over the hyperscalers themselves, where valuations are attractive and asset quality, contractual agreements, power access and the durability of end demand provide structural protection.

Investment Implications: How Should Investors Position Fixed-Income Portfolios?

The opportunity today is being created by divergence. Growth, inflation, fiscal policy, issuance and central bank reaction functions are impacting countries and sectors, as well as curve positions, differently. We believe portfolios should be built to capture those differences while retaining enough quality and liquidity to adjust as new data comes in.

- **Global Bond Exposure Hedged to USD:** A global eye is attractive because economies are at different points in their inflation and policy cycles, government-bond curves offer different combinations of real yield and duration, and issuance pressures are not uniform across markets. Hedging currency exposure back to the US dollar allows the portfolio to focus more directly on those bond market differences rather than making foreign exchange direction the dominant source of risk. A dynamic global allocation can, therefore, move toward markets where policy has more room to ease, real yields are better compensated or curves offer more attractive roll-down, while reducing exposure where fiscal or supply risks are not adequately priced.
- **Globally Diversified High Yield:** Credit fundamentals remain generally supportive, but opportunities are becoming increasingly dispersed across regions and sectors. A global approach broadens the investable universe while reducing dependence on any single economy or credit cycle. Active global credit selection allows us to allocate across US, European and emerging-market opportunities, emphasizing the most attractive risk-adjusted income while avoiding sectors where valuations no longer adequately compensate investors.
- **Higher-Quality, Shorter-Duration High Yield:** With government yields elevated and credit spreads near historical averages, we believe investors can continue earning attractive income while limiting exposure to the two largest sources of high-yield volatility:

lower-quality issuers and longer-duration bonds. Active security selection within this allocation seeks to maximize income while managing downside risk through disciplined issuer selection, fundamental credit research and thoughtful duration management.

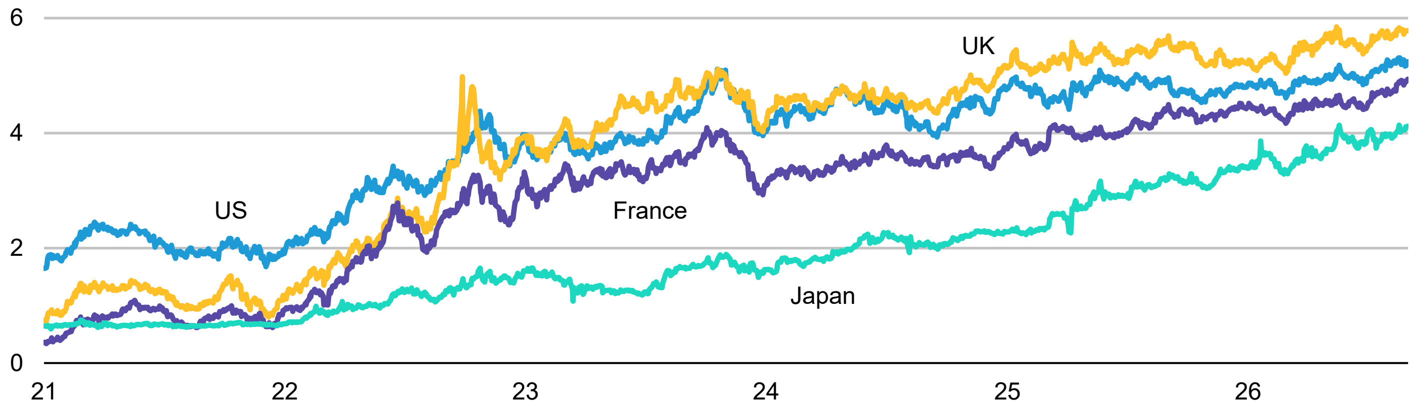
Bottom Line: The back-up in long-end yields has created challenges for pockets of fixed income; however, the conditions driving yields higher present opportunities for income seekers and active bond selection. That brings us back to our framework from last month: focus less on predicting the next headline and more on identifying the structural forces that will determine returns. Today, the two we are watching most closely are the durability of the AI-led investment cycle and the repricing of long-term capital.

Wishing you success in your continued investment journey,

The AllianceBernstein Fixed Income Team

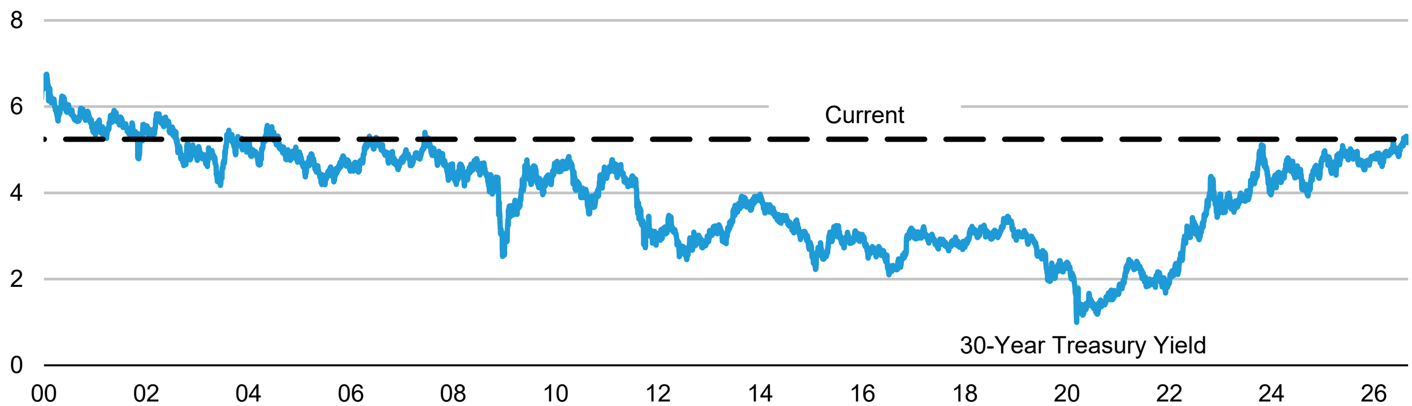
To learn more about AB's fixed-income solutions and access other market insights, visit Fixed-Income Investments | AB.

Display 1: Long-End Rates Have Continued to Sell Off for Major Developed Markets Around the Globe
Yield (Percent)



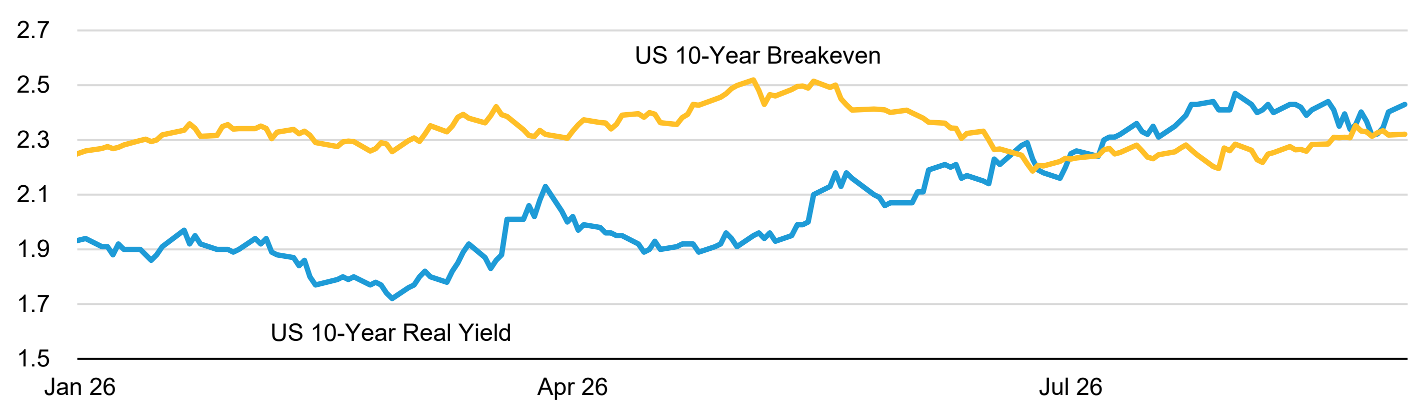
As of August 31, 2026
Source: Bloomberg and AllianceBernstein (AB)

Display 2: Yield on the 30-Year US Treasury Is at Its Highest Level Since the Summer of 2002
Yield (Percent)



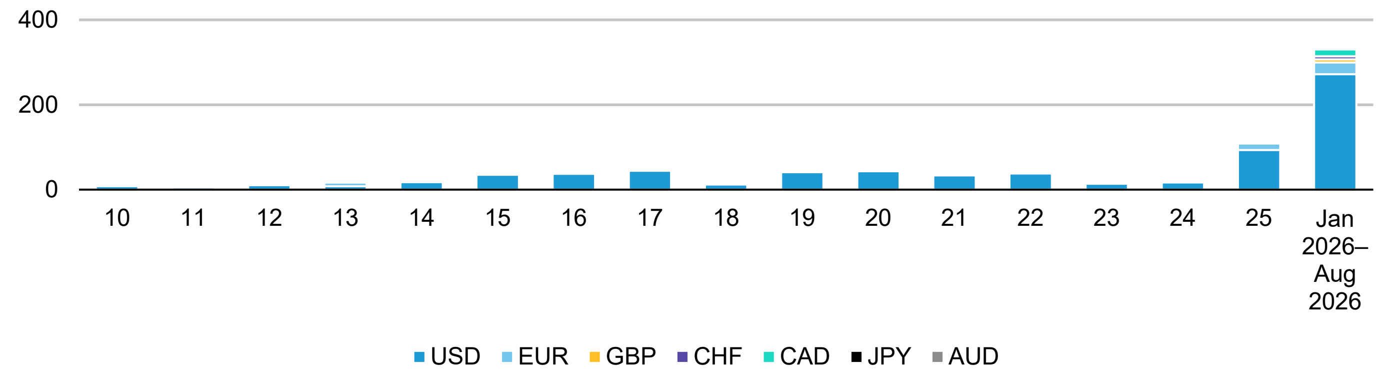
As of August 31, 2026
Source: Bloomberg and AB

Display 3: Breakevens Have Remained Range Bound While Real Yields Have Increased
Yield (Percent)



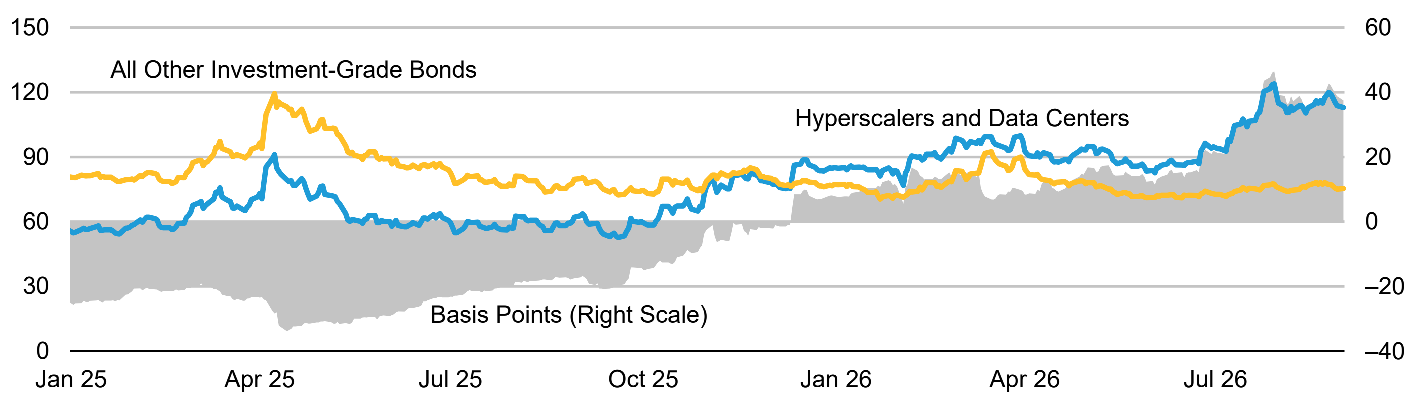
As of August 31, 2026
Source: Bloomberg and AB

Display 4: Hyperscalers and Data Centers Have Issued Bonds at a Blistering Pace in 2026
USD Billions



References to specific securities are presented to illustrate the application of our investment philosophy only and are not to be considered recommendations by AllianceBernstein L.P.
Hyperscalers defined as: AMZN, GOOGL, META, MSFT, ORCL and SPCX
Data Centers defined as: AMD, AVGO, HUTBPA, HUTRBA, NVDA, RDMICH, RPLDCI and TXEDCI
As of August 31, 2026
Source: Bloomberg, Goldman Sachs and AB

Display 5: Hyperscaler and Data Center Bonds Now Trade at a Discount to Other Investment-Grade Bonds
Spread (Basis Points)



Hyperscalers defined as: AMZN, GOOGL, META, MSFT, ORCL and SPCX
Data Centers defined as: AMD, AVGO, HUTBPA, HUTRBA, NVDA, RDMICH, RPLDCI and TXEDCI
As of August 31, 2026
Source: Bloomberg and AB

Investment Risks to Consider

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

Important Information

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