Macro Outlook Summary

September 2026

The slow burn issue of ever-increasing government debt from profligate borrowers who are hard to hold to account has returned to centre stage. Currency debasement is the headline so gold and Bitcoin have benefitted.

Often the noise from daily headline news and data can become as preoccupying as social media platforms and serves to stop investors from stepping back to gain a better perspective on the macro picture. The long term picture on government bond yields is neither good nor supportive to equity markets but is being ignored by almost all equity investors, to some extent because yields are boring and rarely change that much.

But they are at the heart of every discounting cash flow pricing model and were much invoked by tech equity investors four years ago when they were trying to justify ever higher valuations. Big tech was characterised as a long duration asset with rising cashflows and dividends reaching far into the future and therefore should be priced with sensitivity to long term interest rates. Long rates were ultra-low so tech valuations were high. What ever happened to that rationale with long rates now so much higher you may ask. A partial answer is that equity investors' optimism bias found a new rationale for even higher valuations with the advent of AI.

Meanwhile, the 30Yr UST yield has followed a trajectory which may be somewhat different from perception. The current yield peak of 5.2% was last seen in May'06, so 20Yrs ago. From then the yield fell steadily to a low of 1.2% in Covid and then from the beginning of 2022, when inflation management failed, the yield rose from 1.8% to 5% by the end of 2023. The rate has hovered in this zone ever since. Over the same time period the S&P has gained 65% which to a bond investor doesn't quite add up whatever the earnings stories may be.

Scott Bessent, US Treasury Secretary, announced buybacks of treasuries longer than 10Yrs would double from $2bn to $4bn for the next few months. Against a $29tr outstanding US Treasury debt pool this doesn't move the needle but beware further intervention. Reducing borrowing costs is a central objective for every government and those able and willing to manipulate are increasingly likely to do so.

Japan imposed yield curve control YCC on JGBs which led to massive pricing distortion and artificially low yields. Through their persistent intervention the BoJ has ended up owning over 50% of outstanding JGBs and Japan debt to GDP is around 230%. The conclusion that these prime currencies are being debased is plainly correct.

At some point equity investors will take proper note but so far each correction month which could have led to more fundamental re-pricing has been swifty reversed by the buy-the-dip brigade who have been very right. We are not alone in seeing trouble ahead but the catalyst and timing are as always tricky to pin down.

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