MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa

The Long End of Yield Curves Are Speaking, But Governments Are Not Listening

The verdict of August has been delivered at the far end of the curve. The thirty-year US Treasury has breached 5.3%, its highest level in nineteen years; the thirty-year gilt sits near 5.75%, unseen since 1998; the thirty-year JGB has printed above 4%, a level without precedent in the instrument's history; the Bund is at a fifteen-year high and the OAT at a post-2008 one. Four sovereigns, four fiscal positions, four monetary regimes — one direction. This is not idiosyncrasy; it is a synchronised repricing of the term premium, and the causes are worth separating carefully, because they carry radically different implications.

The benign reading comes first. If artificial intelligence delivers the productivity gains its capital expenditure implies, potential growth rises, and with it the equilibrium real rate; a higher r* is simply the price of a richer future. There is something to this. Yet notice the sleight of hand: the investment boom absorbs global savings *today*, whether or not the productivity arrives *tomorrow*. Markets are pricing the capex, not the returns. Add rearmament across NATO, the energy transition, and the demographic reversal that turns ageing societies from net savers into net dis-savers, and the savings-investment balance shifts against bondholders on three fronts at once. Thus the real-rate story is real — but it is a story about scarcity of capital, not abundance of growth.

The second cause is less flattering. The United States is running a deficit near 7% of GDP at full employment, with debt above 120% of GDP and past $40 trillion in absolute terms; the United Kingdom has bound itself to fiscal rules that markets increasingly treat as a hostage rather than an anchor; Japan is expanding fiscally at precisely the moment its central bank withdraws. That Washington has doubled its liquidity-support buybacks is the tell: a Treasury managing the symptom rather than the diagnosis. Bond vigilantism, pronounced dead in 2020, has been exhumed.

Third, inflation. Energy shocks transmitted through the Strait of Hormuz, US inflation still at 3.4%, British CPI back at 2.9%, Japanese prices accelerating for a second consecutive month — and, more corrosively, sustained political pressure on central bank independence. Investors are not merely raising expected inflation; they are charging insurance against the possibility that it will be tolerated. That premium compounds over thirty years.

Three further mechanisms deserve mention. The price-insensitive buyer has vanished: quantitative tightening, BoJ normalisation and the maturation of British defined-benefit schemes have removed the bid that suppressed duration risk for a decade. Japan, the world's creditor of last resort, is repatriating capital as domestic yields finally compete. And bonds no longer hedge equities reliably, so duration must pay for itself.

The implication is conditional but stark. Should AI productivity materialise, higher nominal rates will be validated by higher nominal growth and the arithmetic holds. Should it not, governments will face r comfortably above g with no cyclical rescue available. Prudent finance ministers would plan for the second case. Few are.

Our Recent Publications

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Looking Ahead

The Week Ahead: QoQ GDP To Decelerate In US and Germany And Advance In France

In the US, in Q2, according to the second estimate, GDP growth rate is expected to decelerate to 1.5% q-o-q (*p:* 2.1%). In July, core PCE price index is seen remaining at 3.3% y-o-y. In August, Michigan Consumer Sentiment is expected to decline to 51.0 (*p:* 55.2).
In the EZ, in August, consumer confidence is likely to shrink at -16.3 (*p*: -15.9). Among the largest EZ economies, in Q2, the GDP growth is expected to: *i)* decelerate to 0.2% q-o-q (*p:* 0.4%) and 0.9% y-o-y (*p:* 0.7%) in Germany; *ii)* advance by 0.2% q-o-q (*p:* 0.1%) and 0.7% y-o-y (*p:* 0.8%) in France.

The Quarter Ahead: US Tariffs On Canadian Goods; Meta Faces A Federal Trial; US New Sanctions On Iran

The US imposed 50% tariffs on around $20 billion of Canadian goods after the two countries failed to reach a trade deal. The measures affect just over 5% of Canadian exports to the US, limiting their immediate economic impact but escalating bilateral trade tensions. Prime Minister Carney suspended negotiations and pledged dollar-for-dollar retaliation, arguing that last-minute changes to US terms were unfair and undermined confidence in any agreement.
A major federal trial against Meta over youth safety and social media addiction began in California, with 29 state attorneys general alleging that the company deliberately designed its platforms to keep young users engaged while exploiting their data and harming their mental health.
The US is preparing a new round of sweeping sanctions against Iran, with Treasury Secretary Scott Bessent pledging unprecedented economic isolation and threatening penalties against countries helping Tehran evade restrictions. Washington argues that intensified economic pressure could reduce the need for further military action, while Iran condemned the measures as "economic warfare" and an assertion of U.S. "extraterritorial sovereignty." Details of the sanctions are expected Monday.

Last Week's Review

Real Economy: Headline Inflation Increased In EZ And UK, Retail Sales Rose In UK

In the US, in July, IP increased by 1.1% y-o-y (*p:* 1.3%).
In the EZ, in July, headline and core inflation rates rose to 2.9% y-o-y (*c:* 2.9%; *p:* 2.8%) and 2.5% y-o-y (*c:* 2.5%; *p:* 2.4%). In August, ZEW Economic Sentiment Index increased to 31.4 (*c:* 25.4; *p:* 23.4).
In the UK, in July, headline inflation rate increased to 2.9% y-o-y (*c:* 2.9%; *p:* 2.6%), while core inflation rate remained at 2.6% y-o-y (*c:* 2.5%; *p:* 2.6%). In June, unemployment rate remained at 4.9% y-o-y (*c:* 4.8%). In July, retail sales increased by 1.6% y-o-y (*c:* 2.2%; *p:* 3.8%).

Financial Markets: Stocks Mostly Declined; Yields Increased; Dollar Was Down; Oil And Gold Prices Increased

Market Drivers: Major US equity indexes ended the week lower as rising Treasury yields, renewed U.S.-Iran tensions, higher oil prices, and weakness in semiconductor and AI stocks weighed on sentiment. Long-term Treasury yields rose, with the 30-year yield hitting its highest since 2007 amid fiscal concerns, heavy debt issuance, AI-related spending, and higher oil prices. A brief rally following increased Treasury debt buybacks later faded. In Europe, stocks fell as pressured by the global government bond sell-off, renewed inflation concerns, and uncertainty over prospects for a lasting U.S.-Iran peace agreement.
Global Equities: declined *w-o-w* (MSCI ACWI, -0.9%, to 1,149.81). The US S&P 500 index declined (-1.4% w-o-w, to 7,674.37). In the EZ, share prices were down (Eurostoxx 50, -1.1% w-o-w, to 6,465.65) In EMs, equity increased (MSCI EMs, +1.2%, to 1,721.89). Volatility fell to 17.50 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).
Fixed Income: *w-o-*w, the 10-year US Treasury yields were up (+4 bps to 4.74%). The 2-year US Treasury yields increased (+7 bps to 4.23%). The German 10-year bund yields edged up (+6 bps to 3.26%).
FX: *w-o-w,* the US Dollar Index declined (DXY, -0.9%, to 98.80; EUR/USD +0.9%, to 1.17). In EMs, currencies increased (MSCI EM Currency Index, +0.8% w-o-w, to 1,917.38).
Commodities: *w-o-w,* oil prices increased (Brent, +6.2% to 93.93 USD/b). Gold rose increased w-o-w (+5.2% to 4,661.60 USD/Oz).

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The picture in the first page was taken from this website.

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year