



## SPECIAL MARKET REPORT – GLOBAL BONDS

### *Market Update: Why U.S. Bond Yields Hitting 5% Matters*

If you've tuned into the financial news lately, you might have heard a lot of chatter about the U.S. 10-year Treasury yield approaching 5%.

However, this 5% milestone acts like a powerful magnet for global money and has a ripple effect on everything from the global share market to the broader Australian economy.

Here is a simple breakdown of what is happening, why it's happening, and what it means.

#### **What is a 10-Year Bond Yield?**

Think of a government bond like a home loan, but with the roles reversed. You lend your money to the U.S. Government for a 10-year period and receive interest, known as the yield. Right now, investors are demanding around 5% per year to lend money to the U.S. Government for a decade.

#### **Why are Yields Going Up?**

For a long time, the U.S. Government could borrow very cheaply. Today, investors are demanding higher returns because of growing debt levels and concerns about government budget management.

#### **What Does This Mean for the Economy?**

The U.S. 10-year bond yield is a global benchmark for borrowing costs. Higher yields generally mean higher borrowing costs for governments, businesses, and consumers, which can slow economic activity.

#### **What Does This Mean for Your Portfolio?**

The typical superannuation portfolio is generally divided into two major asset classes: equities and fixed income investments.

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- **Equities (The Competition Factor):** A 5% government bond yield provides investors with an attractive alternative to shares, which can increase volatility and pressure share prices.
- **Fixed Income (The Seesaw Effect):** As yields rise, existing bond prices fall. However, higher yields allow fund managers to reinvest into new bonds with more attractive future returns.

### The Bottom Line

Headlines about rising bond yields and falling share prices can feel unsettling. These shifts are a normal part of the economic cycle and highlight the importance of diversification and long-term investing discipline.

If you are unsure how these global developments may affect your portfolio, please reach out for advice.

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