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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