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8 September 2025

The long-bond problem

- **The recent “bond rout” would be better described as a long-end bond technical**
- **It reflects dwindling pension demand more than existential fears around inflation or debt sustainability**
- **Governments should reduce their long-end issuance accordingly**
- **Investors should continue to hold steepeners until they do – without necessarily being short duration**

Concern around unsustainable government borrowing is everywhere – from the frenzy of anxious commentary around gilts to the explosion higher in gold. Everywhere, that is, except the one place people seem keenest to find it, namely the bond market.

What some are calling a “bond market rout” would in fact better be described as a technical specific to 30-years. It is better positioned for through steepeners than through bond underweights or duration shorts. Debt sustainability concerns, though both real and relevant, are to our minds better expressed through gold longs or asset swaps than through duration.

Is this the Carville moment?

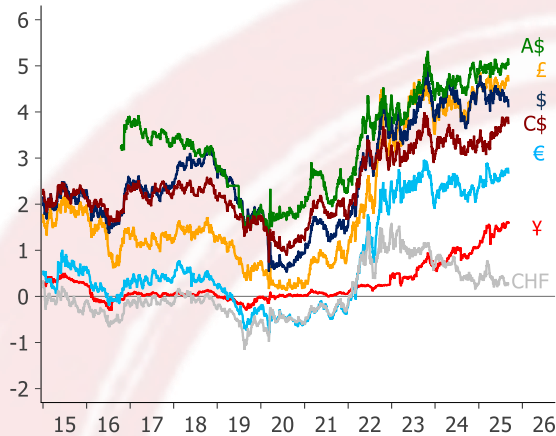
To judge from much recent commentary, global bond markets are on the verge of full-fledged panic. As the FT puts it, “Investors are losing faith in the ability of western governments to rein in spending”.¹ Others see it as a near-inevitable payback for prior profligacy: “Deficits are wide, debt is high, and yields have been kept artificially low for

¹ *The bond vigilantes will keep on circling*, FT, 7 Sep.

many years”.² But while the concerns are genuine, we are not convinced they are the drivers of price action they are often made out to be.

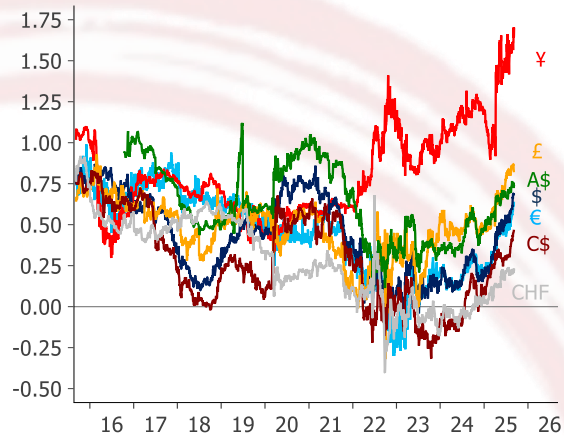
Is this really a rout?

Global 10y government bond yields, %



Only in 10s30s does it become universal

10s30s govt curve steepness, %

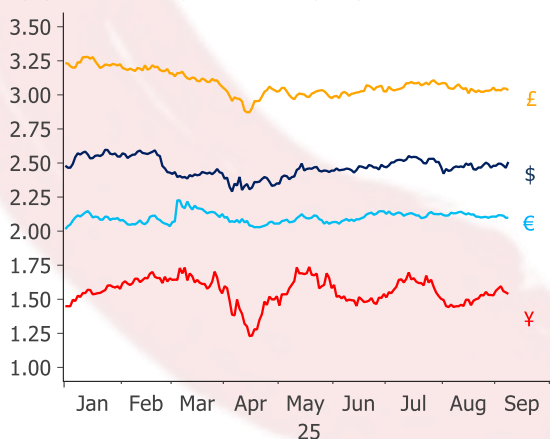


For starters, the really global move has not been in 10- or even 30-year yields but in the steepness of 10s30s – for long infamous as the most technical part of the bond market.

But as usual it is the decomposition of the move which provides the key to what is happening. If this were – finally – a reflection of persistent inflation and debt monetization, long-term inflation expectations ought to be rising. Instead they have remained resolutely stable, from Japan to the UK, and everywhere in between.

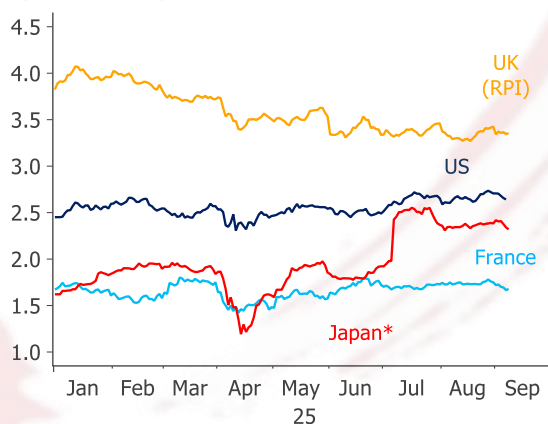
Yield chg not due to inflation credibility

5y5y inflation swaps or nearest proxy, %



Nor even to near-term inflation worries

5y inflation swaps, %

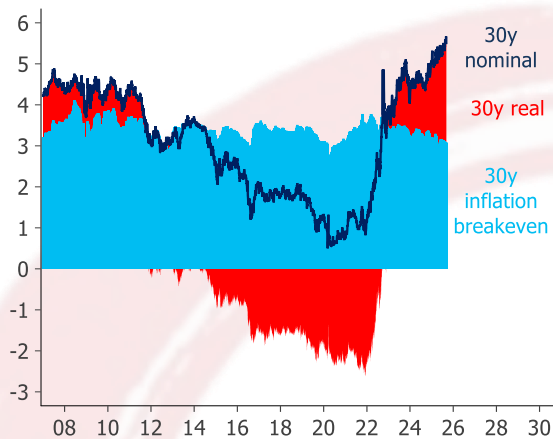


² [Why are long-term yields rising?](#), R. Brooks, 4 Sep.

Even if we look at bonds as opposed to swaps, and all the way out to 30-years, it is real yields, and not inflation expectations, which have been driving the sell-off.

Even gilts not driven by inflation

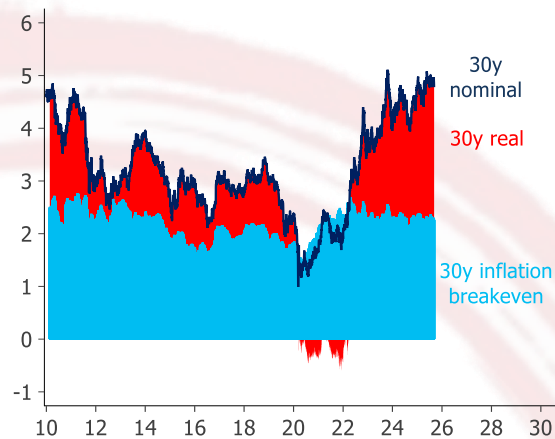
30y gilt yield decomposition, %



Source: Macrobond, Satori Insights.

Concern not inflation but real rates

30y UST yield decomposition, %

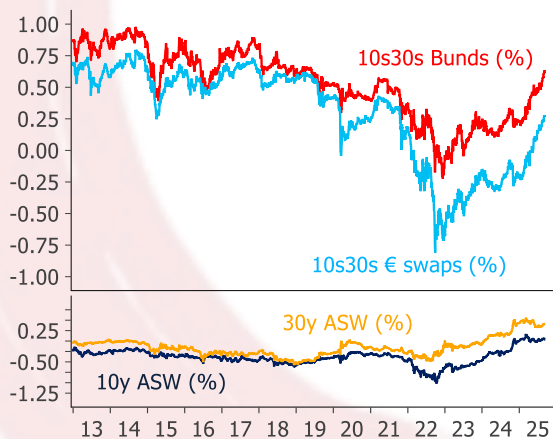


Source: Macrobond, Satori Insights.

This is not to say that it is benign, nor to deny the very genuine economic and especially political problems facing many governments thanks to years of accumulated debt and a populist threat which makes it all-but-impossible to attempt to deal with it.

€ steepening stronger in swaps

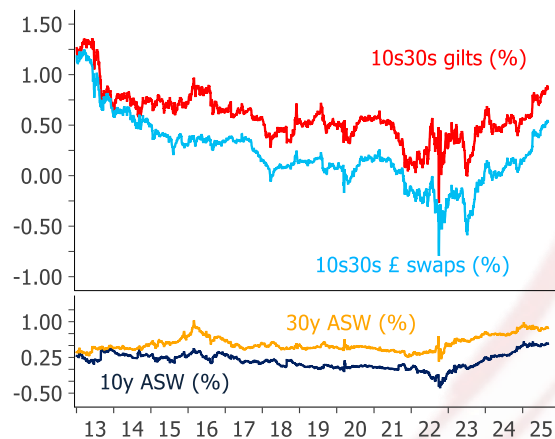
€ 10s30s spreads



Source: Bloomberg, Macrobond, Satori Insights.

UK credit carries a premium, but stable

UK 10s30s spreads

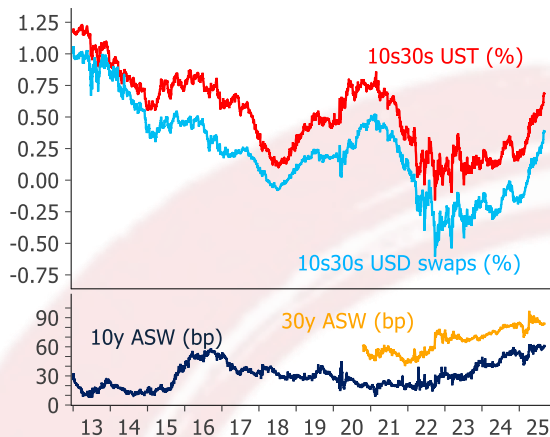


Source: Bloomberg, Macrobond, Satori Insights.

But if these were the concerns driving markets, if we really were on the verge of a rout – with all the associated implications of a potentially self-fuelling run – we should have seen weakness specifically being concentrated on govies. Instead, in many currencies the move both started earlier, and was more pronounced in, swaps. Only in Japan have 30-year JGBs been driving the action.

US steepening stronger in swaps

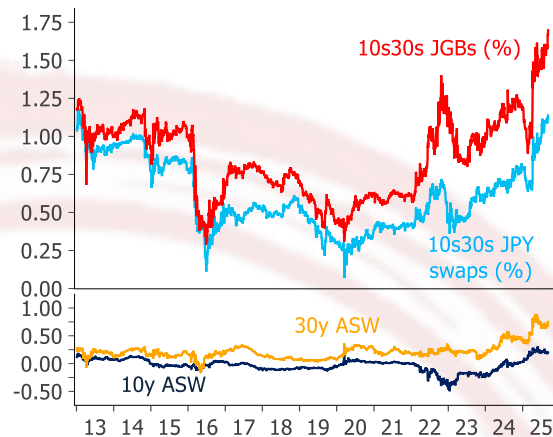
US 10s30s spreads



Source: New York Fed, Bloomberg, Macrobond, Satori Insights.

Japan steepening primarily in JGBs

Japan 10s30s spreads



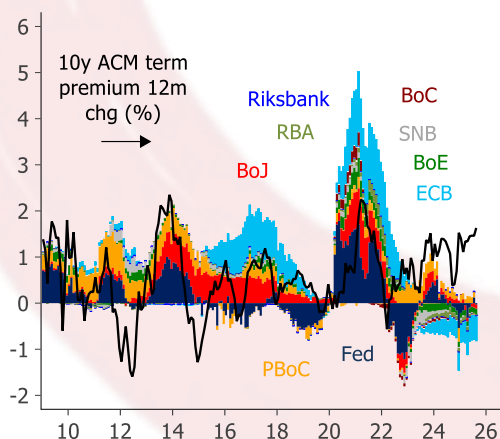
Source: Bloomberg, Macrobond, Satori Insights.

A dearth of demand – but only in the long end

To understand these dynamics better – and in particular why they are largely confined to the long end – consider the usual vigilantist narrative. “Central bank buying artificially suppressed both yields and premia,” we are told. Now that central banks are net selling, it is only natural that yields have to rise – all the more so where governments seem structurally incapable of reducing deficits (US, France) or where central banks are outright selling (UK).

Did QE push premia down - or up?

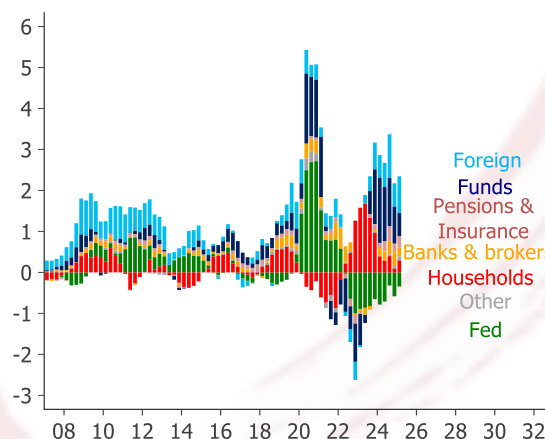
Global QE/QT (12m reserves chg, \$tn) vs UST term prem



Source: national central banks, Federal Reserve, Macrobond, Satori Insights.

Who buys when central banks sell?

Chg in UST holdings, rolling 4q, \$tn



Source: Federal Reserve, Satori Insights.

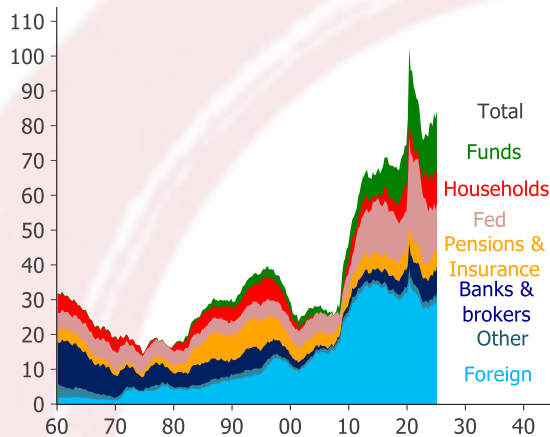
But while this narrative seems intuitive, the actual evidence on this front is rather mixed. The link between QE, QT and bond yields and premia is best described as complex³ – in

³ *Global QT: what central banks haven't learned*, Mar24.

contrast with its much more straightforward empirical link with credit and equities.⁴ And given the dominance of central bank purchases previously, most governments have had surprisingly little difficulty replacing them with new sources of demand – typically from households and bond funds.

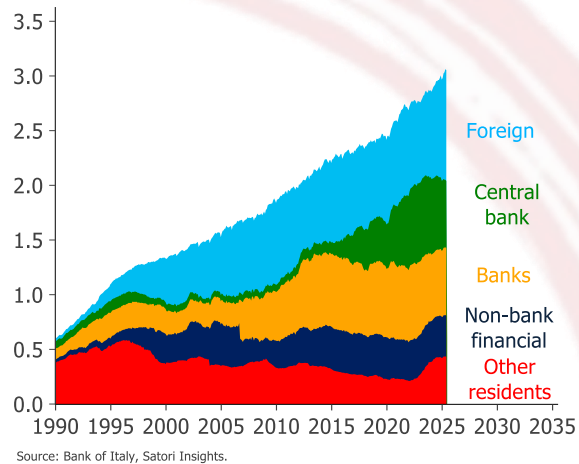
Funds & households plug the hole

US Treasury outstandings by holder, % GDP



Mamma e Papà bonds

Holders of Italian govt bonds, €tn



We have long been comparatively relaxed about the ability of governments to fund deficits – in part based on history, in part because of the ability to “suck” demand away from risk assets like equities if things become bad enough, and in part because of the near-self-funding nature of the credit creation process itself.⁵

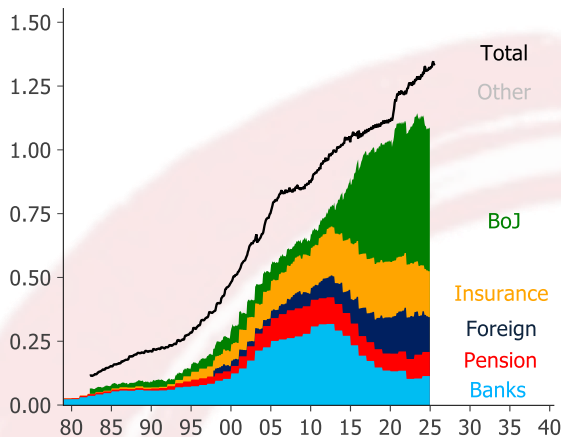
But all of these are arguments about the ability to source demand for govies in general, not to source demand for duration. It seems increasingly apparent that the largest and most concerning backups in 30-years are occurring in jurisdictions – like Japan and the UK – where once-dominant pension and insurance demand is now increasingly notable by its absence.

⁴ [Flows & liquidity analytics](#), daily. Many of the short-term correlations have frayed recently – especially with US equities – but the longer-term relationships remain clear.

⁵ [The mind-bending maths of fiscal financing](#), Nov23.

Banks cut first; insurers more recently

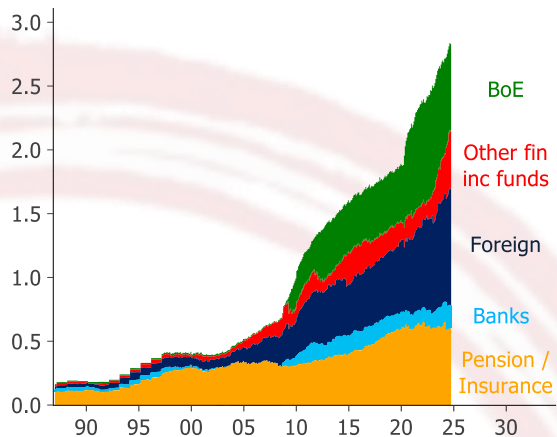
JGB holdings, ¥qn



Source: BoJ, Macrobond, Satori Insights.

Pensions & insurance stopped buying

Gilt holdings by sector, £tn

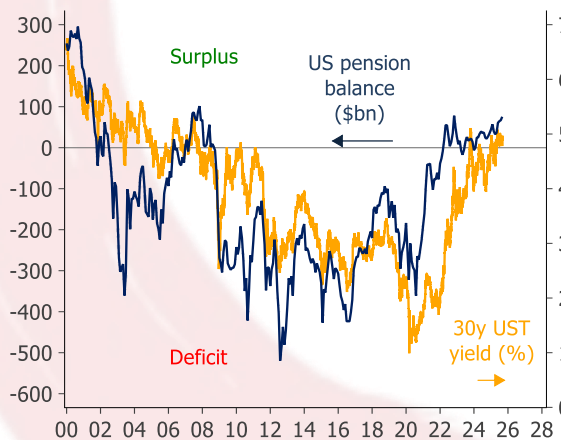


Source: OBR, DMO, Macrobond, Satori Insights.

The reason for this is straightforward. As populations pass peak savings age, they have less need for long-dated assets than previously – either in the form of life insurance or pensions. Prior holes in defined benefit pension schemes have largely now been plugged – and the associated bid for bonds from schemes de-risking has now run its course.

Surplus de-risking done?

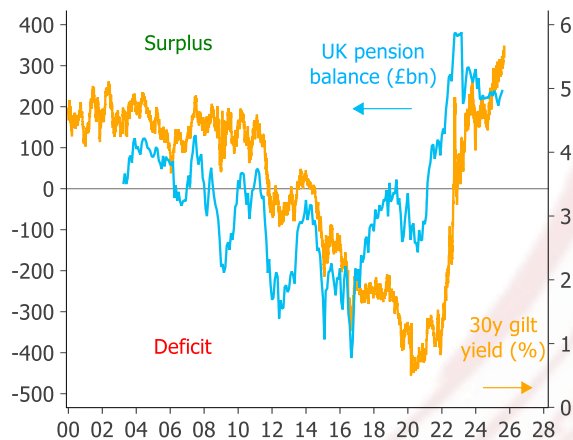
US defined benefit pension aggregate deficit vs yields



Source: Milliman, U.S. Treasury, Macrobond, Satori Insights.

They've certainly had the chance

UK defined benefit pension aggregate deficit vs yields



Source: PPF, Macrobond, Satori Insights.

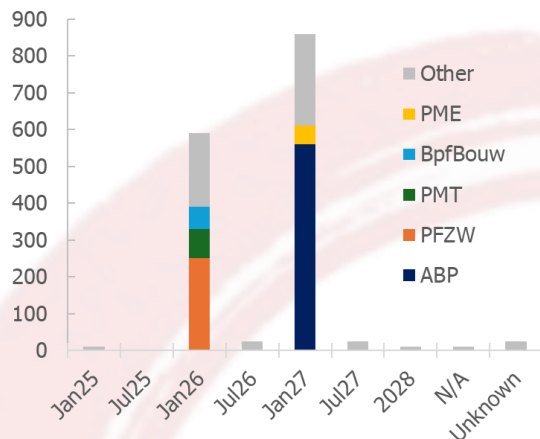
Future pension schemes are almost invariably defined contribution – and therefore tend to have an increased demand for risk assets and reduced demand for duration to match precise liabilities. Where legislation is forcing even existing schemes to change, as in the Netherlands,⁶ the impact on markets is compounded – especially where the schemes in question are large.⁷

⁶ *Four things to watch in the Dutch pension reforms*, ING, 28 Jul. *The end of the Dutch defined benefit model a steeper euro swap curve ahead*, PIMCO.

⁷ Dutch Pension Revamp Risks Turning Into a €2 Trillion Headache, Bloomberg, 1 Sep.

Duration demand redefined

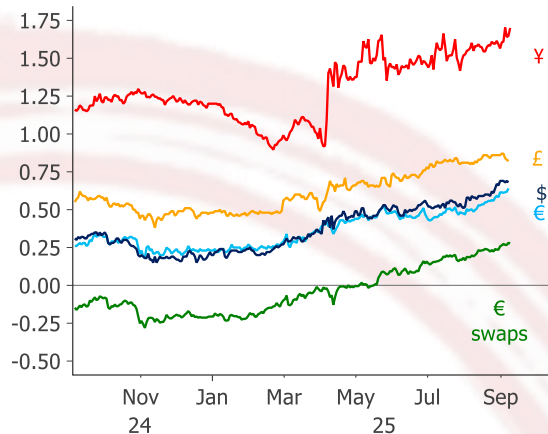
Dutch pension scheme transition dates, €bn



Source: DNB, Pensioenpro, ING, Satori Insights.

Hence the bigger, earlier move in swaps

10s30s curve steepness, %



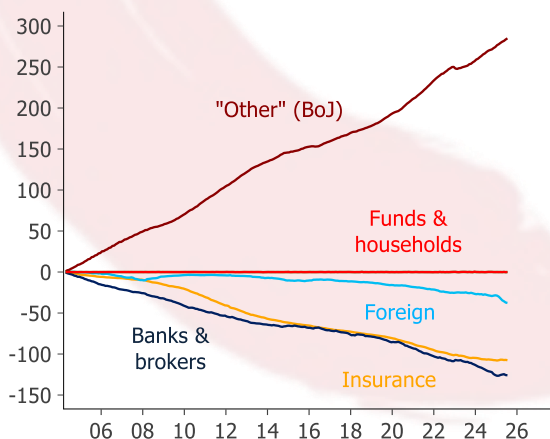
Source: Macrobond, Bloomberg, Satori Insights.

While most governments provide data about bond ownership in general, very few provide specific information about long-end demand. But in 30-years in particular, the pension and insurance bid is likely to be overwhelmingly predominant. Banks and brokers usually buy out to 10-years; households and funds, likewise (with the exception of individual long-duration funds like TLT, which has seen net selling this year).

To gain an idea of just how dominant, look at the holdings of pensions & insurers in the famously long-dated gilt market (above) up until the early 2000s, or look at the extent to which net selling in long-dated JGBs – which the JSDA unusually does break out by maturity bucket – has been dominated by insurers.⁸

Long bonds dependent on BoJ

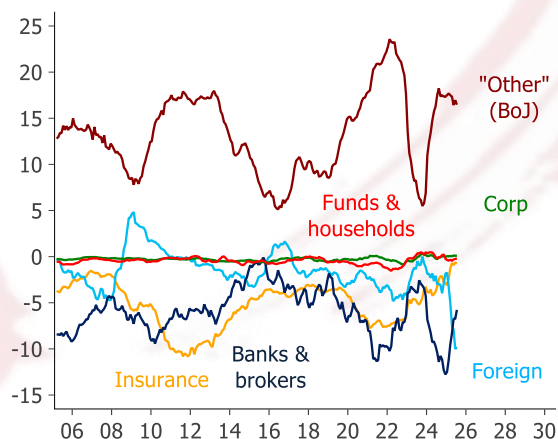
Cumulative net purchases JGB > 10y maturity, ¥tn



Source: JSDA, Macrobond, Satori Insights.

Foreign selling, BoJ buying

Net purchases JGB > 10y maturity, rolling 1y, ¥tn



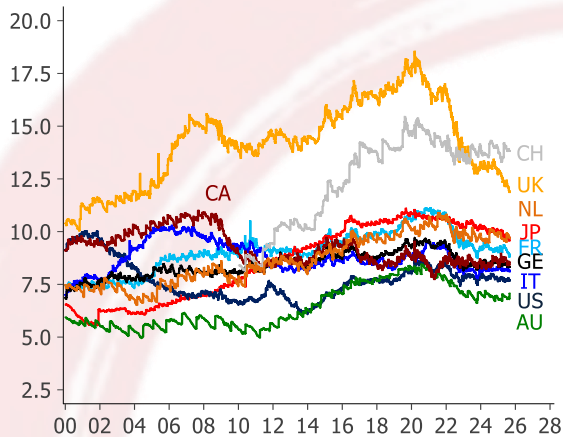
Source: JSDA, Macrobond, Satori Insights.

⁸ We are slightly hesitant to use this, transaction-derived, data as a measure of overall demand. Even once we include shorter maturities, it shows considerably more net selling, especially from foreigners, than do the corresponding holdings series from the BoJ.

So while there is unquestionably a supply-demand problem, it seems much more confined to the long end, and much more technical in nature, than is often presented. This begs the question as to why governments don't simply reduce their long end issuance. In most cases we think they should – and that doing so would go a long way towards alleviating some of the potentially self-reinforcing angst around recent yield moves.

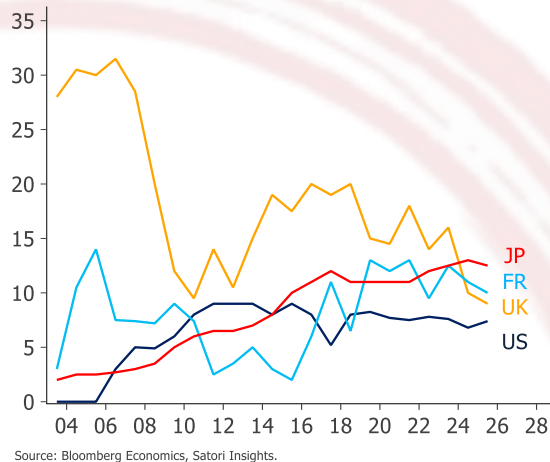
Maturity mostly reflects buyer base

Global govt bond index avg maturities, years



Need long issuance be so high?

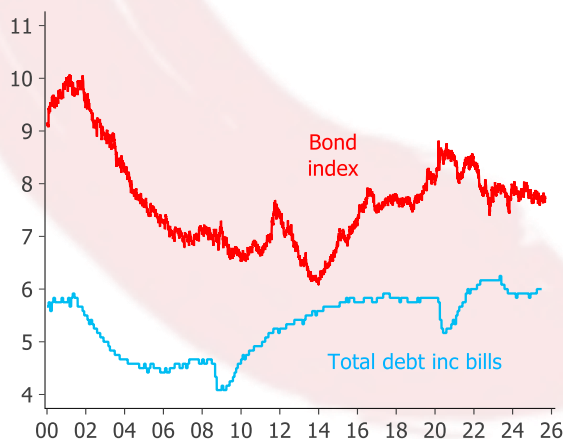
30y+ govt issuance proportion, % total



Obviously no treasurer wants to see their average maturity shorten if they can avoid it, and there are cases – notably the US – where including T-bills already makes the debt look quite alarmingly short, at least by international or corporate standards. It's one thing to roll over one-third of your debt every year when you're the world's best credit, but quite another when you start raising questions around 'user fees' for foreign bondholders and start making credible threats to Fed independence.

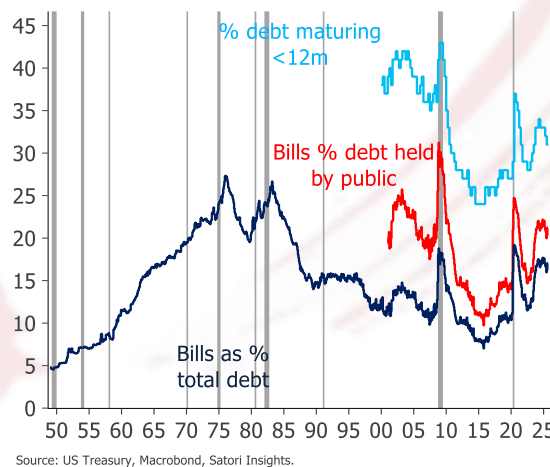
US in particular has many T-bills

US Treasury average debt maturity metrics, years



That's a lot of rollover risk

US short-term debt as % totals



How to position

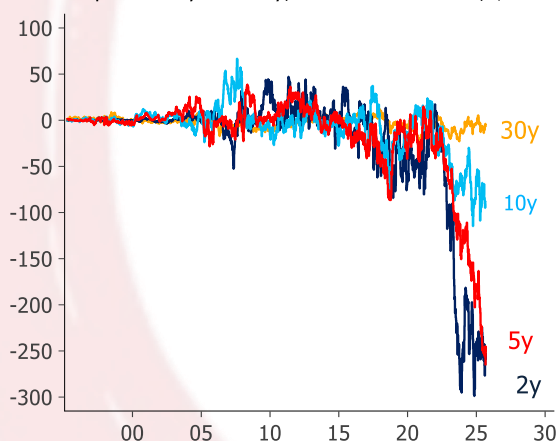
What this therefore implies for investors is two distinct sets of positions.

Further underperformance in long bonds does seem likely, at least until governments change their issuance patterns, and especially as the large Dutch pension system unwinds its existing liability matching. But this is better positioned for through steepeners than through duration shorts – which (as we saw following payrolls on Friday) are much more likely to be squeezed by weak data.

In this respect, 2s30s and 5s30s are conceivably a little crowded, at least in the US. But 10s30s look less so and ought in any case to benefit from rate cuts⁹ – whether justified by a deterioration in the outlook or Trump-induced.

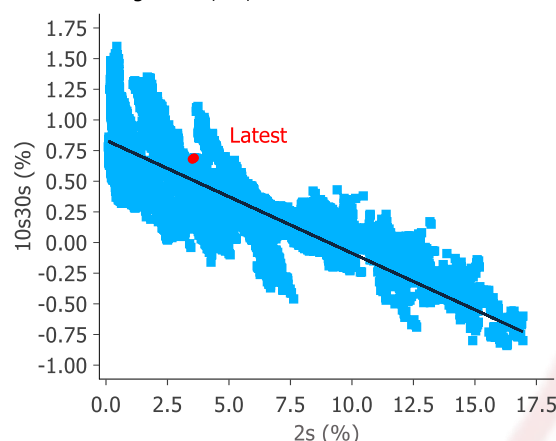
Steepeners in full force

Net UST position by maturity, net noncommercial, \$bn



Lower 2s=steeper 10s30s

UST curve regression, %, 1977-



Conversely, as we have argued previously,¹⁰ investors wanting to express a view on fiscal unsustainability or political instability would in most cases do better to do so through currencies, through asset swaps or through gold.¹¹ Fiscal unsustainability really is the existential issue driving all markets at present – but positioning for it is a bit more complex than simply shorting long bonds.

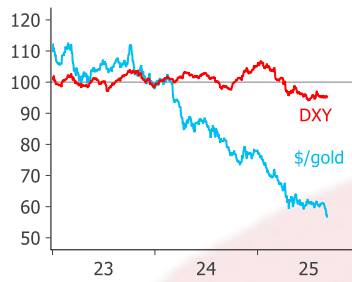
⁹ Only in Japan does the long-standing regression between 2s and 10s30s not hold – presumably because of so many years of QE-related distortion.

¹⁰ [Shorting spendthrift sovereigns](#), 27 May.

¹¹ The primary drivers of the recent gold rally look to be ETF demand in the US and net futures longs in China. See [UST-USD capital flight charts](#), daily. Both may be signs of near-term crowding but from a longer-term perspective seem just as likely to pull more money in.

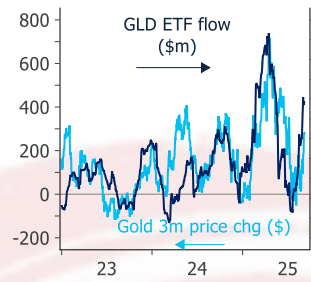
More than just \$ weakness

Indices, Jan24=100



Potential near-term crowding

3m ETF flows vs gold price change



Switch potential aplenty

Official UST at Fed (\$tn) vs gold

