

FROM THE DESK OF:

New York Life Investment Management's Global Market Strategy team

Steeper curves, building risks

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Investment
Management

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Steeper curves, building risks

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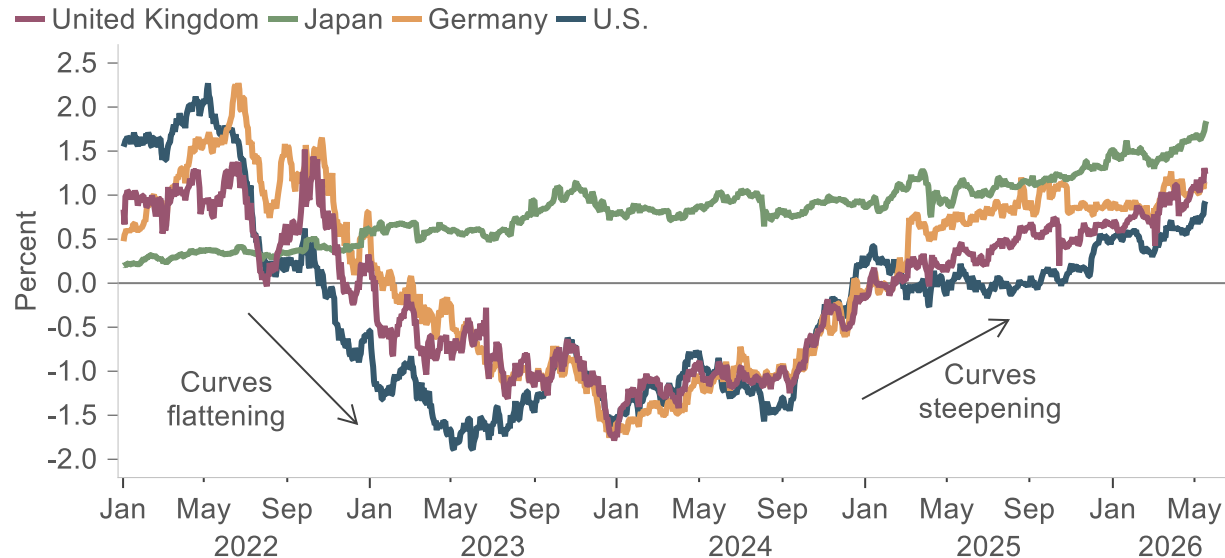
At the onset of the U.S.-Iran conflict, global rates moved higher across the curve – but with a “bear flattener” effect predominant, driven by rapid repricing of near-term policy expectations and higher short-term market rates. Both reflected a focus on the upside inflation risks associated with the oil shock.

This dynamic is shifting rapidly as markets price in a more prolonged conflict with Iran, embedding risks further out along the curve. Global curves have begun a “bear-steepener” effect as long rates rise: the U.S. 30-year Treasury yield climbed to 5.18%, its highest level since 2007, while Japan’s 10-year government bond yield reached its highest level since 1996.

The rise in long-end rates reflects not only geopolitical uncertainty but also growing structural concerns around persistently large fiscal deficits and elevated government borrowing needs in the face of a sustained oil shock.

The global surge in long rates reflects a combination of risk premium, rising inflation expectations, and more hawkish policy expectations

3-month/10-year sovereign spreads



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond Financial AB, Macrobond, May 2026.



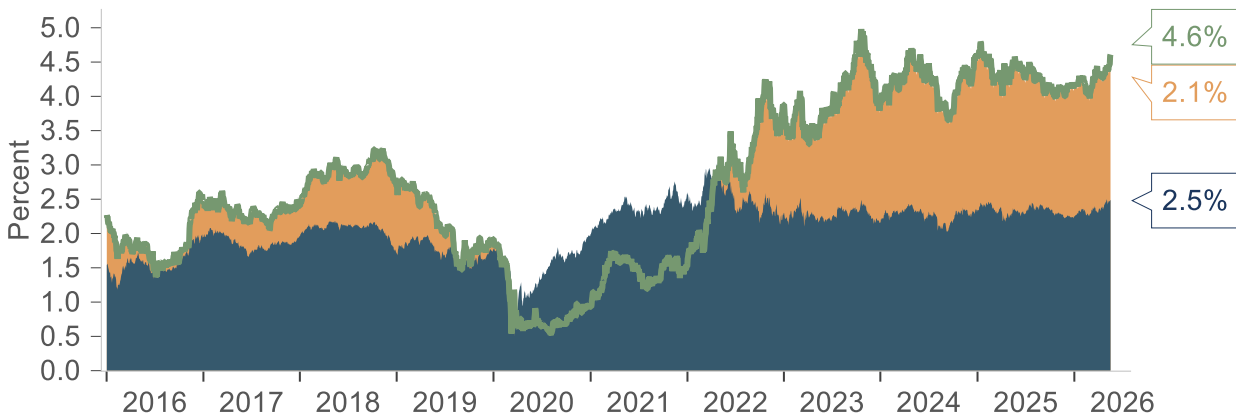
Why are yields on the rise

While the initial rise in rates was concentrated in the front end and driven largely by inflation concerns, long rates are increasingly reflecting a broader set of macro and structural risks. In the U.S., growth concerns may have initially capped rates at the onset of the conflict, but improving growth expectations, tied to AI-driven optimism and strong Q1 earnings, may now be allowing long-end yields to move higher alongside concerns about persistent inflation, widening fiscal deficits, and heavy Treasury issuance.

While inflation expectations have increased, real yields are driving the spike in long rates

U.S. 10-year Treasury yield breakdown

- Nominal U.S. 10-year yield
- Real 10-year yield (implied by 10-year breakeven)
- Inflation expectation (10-year breakeven rate)



Sources: New York Life Investment Management, Global Market Strategy, Federal Reserve, U.S. Department of Treasury, Macrobond Financial AB, Bloomberg, Macrobond, May 2026.

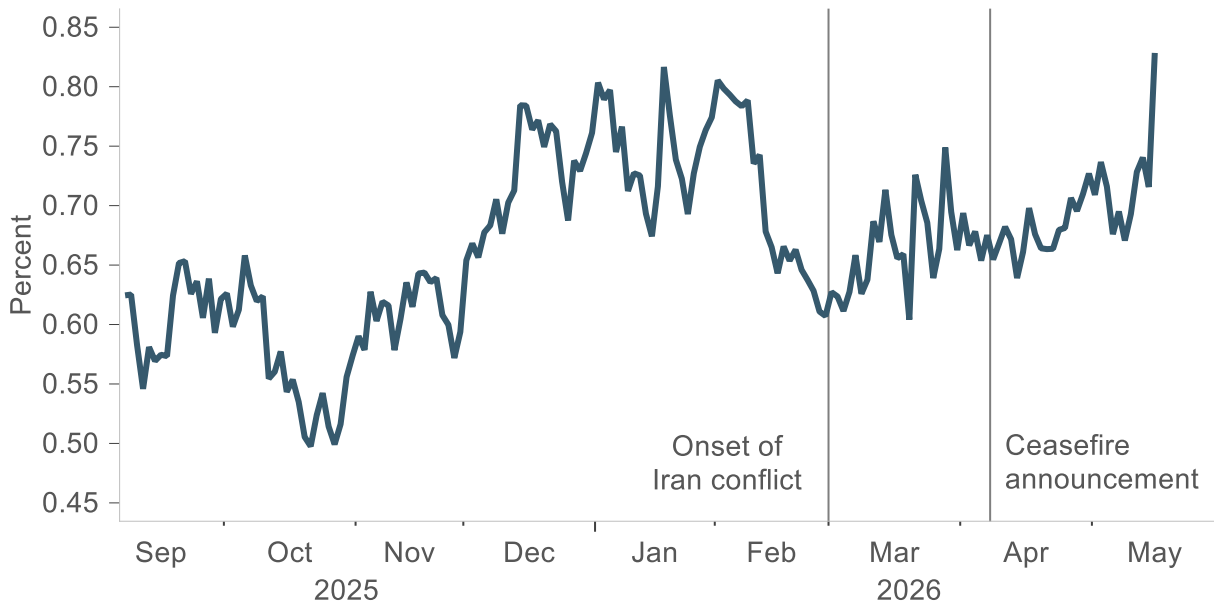
A portion of the increase in long-end yields also reflects a rise in term premia, or the additional compensation investors require for holding longer-duration bonds. Heightened uncertainty around inflation, fiscal sustainability, and geopolitical developments has increased investor demand for compensation against longer-term risks, contributing to the broader upward repricing higher in yields.

In the U.S., Kevin Warsh as Fed chair may also contribute to a higher term premium: while Chair Warsh cannot enact tighter balance sheet policy on his own, he has expressed a desire to constrain Fed purchases through quantitative tightening.



Treasury term premium is on the rise but remains well below historic extremes

Adrian Crump & Moench 10-Year Treasury Term Premium



Sources: New York Life Investments Global Market Strategy, Bloomberg Finance LP, Macrobond, May 2026.

Investment implications

[As we wrote in early May](#), we expected to see some form of curve steepening over the coming months.

What is happening today: the bear steepener. We have remained on the short side of neutral in duration this year, but yields are now approaching levels that present a potential buying opportunity. We view yields near 4.70% on the U.S. 10-year as a compelling entry for selectively extending duration, while mindful that continued volatility could create additional entry points.

Looking ahead

We believe there is still potential to see short rates fall from here, creating a twist effect with both bear and bull steepeners at play. Rates could decline due to one of two triggers – **both of which keep one Fed cut on the table over the coming 12 months.**

The bull steepener + risk-on rotation: In the case of near-term normalization of the Strait of Hormuz, we expect that most global central banks can still resume their pre-conflict path. This effect would disproportionately benefit countries that are currently staring down rate hikes, and would likely prompt a global risk-on rotation favoring ex-U.S. assets and currencies.

The bull steepener + risk-off flight to safety: If rate cuts come back into the picture because Hormuz does not normalize and downside risks to economic activity mount, this bull steepener effect would likely be met with a defensive rotation favoring quality and profitability. This flight to safety would likely include a bid for U.S. assets and the U.S. dollar.



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