Global Markets Daily: G10 Rates Views—Shallow Relief For Long-End Woes

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- Despite mild spot inflation news, ongoing energy volatility and the AI borrowing boom are keeping G10 bonds under pressure, especially at the long-end. We think the inflation and fiscal drivers of higher term premium will prove persistent, with steeper curves a durable feature of the rates landscape.
- WAM reductions are a natural response to shifting patterns in demand away from long-end bonds. But the recent upward pressure on yields has more to do with the macro environment than an excess of long-end bond supply. Apart from local support to long-end swap spreads, these adjustments are unlikely to lead to lower yields.
- Lower US yields will depend on our macro forecasts for benign inflation and below-trend growth. Fundamentals that justify the Fed underdelivering versus current pricing can defer longer-term pressures and see 10y UST yields move to our 4.40% end-2026 forecast. Relief for Bunds is likely to come alongside a more hawkish ECB and a flatter curve, while Gilts will likely maintain a high beta to energy prices. Conditions for JGB stabilization have not yet been met, and we see JGBs underperforming the G4 and revise our end-2026 10y JGB forecasts to 3.0% from 2.5%.
- We think high and sticky term premium can coexist with lower rates volatility. As a result, we think select carry opportunities can work alongside our macro views above. We prefer 2s5s EUR flatteners vs USD, 2s10s steepeners in GBP, CAD and NZD. 5y5y EUR and AUD should continue to outperform JPY and GBP.

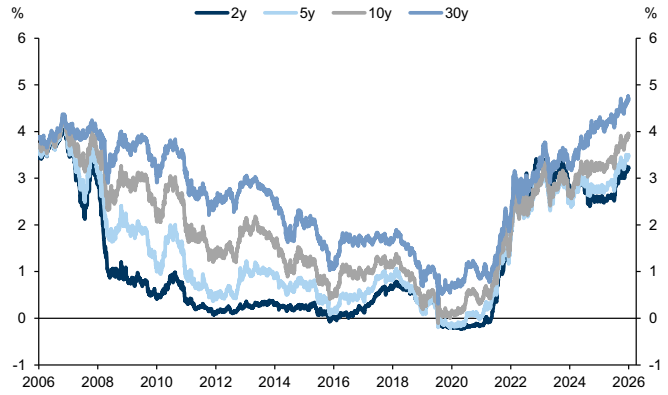
G10 Rates Views—Shallow Relief For Long-End Woes

1. Borrowing boom, benign spot inflation, steeper curves. Incoming data has reduced urgency for central bank hikes in some economies, including the US. Softer labor market data and limited passthrough from earlier energy shocks are likely to see policy rates undershoot current front-end pricing. However, energy volatility continues to drive day-to-day yield moves and challenge the usefulness of bonds as a portfolio hedge, while breakeven inflation has crept higher in recent weeks despite milder spot inflation news. At the same time, the AI borrowing boom is competing alongside government deficits for global savings and necessitates higher yields to clear the market. This combination has steepened curves across major economies, with 30y yields at or near cycle highs in the G4 (Exhibit 1). We think this steepening will remain a feature of the rates environment as the inflationary and fiscal drivers of

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higher term premium remain persistent.

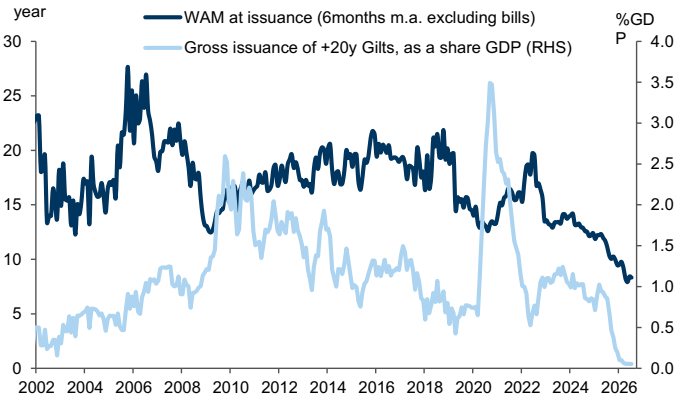
Exhibit 1: Higher long-end yields are a global phenomenon
Average of US, Germany, UK, and Japan sovereign yields by maturity



Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

2. Macro problems, micro solutions. The level and volatility of 30y rates in all major markets have led to various policy responses over the last year, including meaningful reductions of the weighted average maturity (WAM) of issuance in certain markets. The US Treasury's announcement of increased long-end buybacks is the latest measure. Adjusting issuance on the curve is a natural supply response to shifting patterns of demand, especially the structural reduction in long-end demand from liability-driven investors. However, we see little evidence that these issuance responses can meaningfully impact the broader level of yields—even at the long-end. Over the last year, the UK DMO and Japanese MoF have reduced WAM at issuance via sharp reductions in long-end supply (Exhibit 2). This has had some local success in richening long-end bonds vs swaps, but has not managed to lower the overall level of yields. We think this will be true of issuance-based strategies—their impact is more micro than macro, with only a shift in macro fundamentals towards lower inflation a reliable path to durable relief.

Exhibit 2: WAM reductions only do so much for yields
UK 6m rolling WAM at issuance vs gross issuance of +20y Gilts as share of GDP

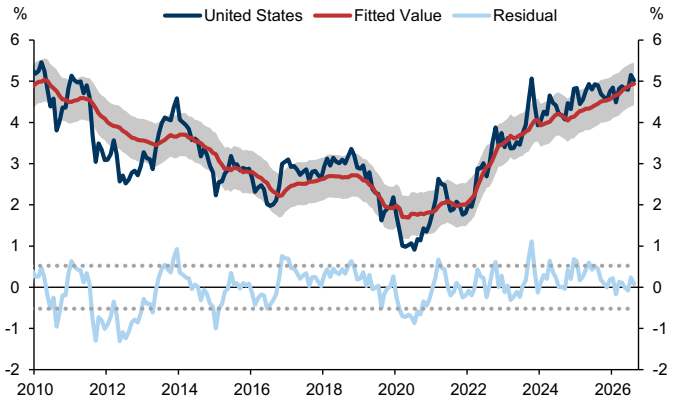


Source: Goldman Sachs Global Investment Research, DMO

3. Cyclical risks now point to (shallow) relief for US rates. It is unlikely that fiscal risks

are going away any time soon, and the rise in term premium owing to a higher distribution around inflation and substantial bond supply is unlikely to retrace. This is the water we swim in and why our long-term US yield forecasts show forwards drifting higher over time. However, unsustainable fiscal trajectories are not usually the best compass for trading views. Cyclical variation is still the main determinant for the trading outlook and our baseline macro forecasts should lead to lower yields over the coming quarters, with our year-end 10y UST forecast at 4.40%. Slightly below-potential US growth in H2 and relatively benign inflation should justify the Fed underdelivering versus market pricing. We think this should anchor the curve and take yields lower even as durable forces such as AI-related issuance and slow-burning fiscal risks limit the extent to which longer-term forwards—which sit right around fair currently (Exhibit 3)—can fall.

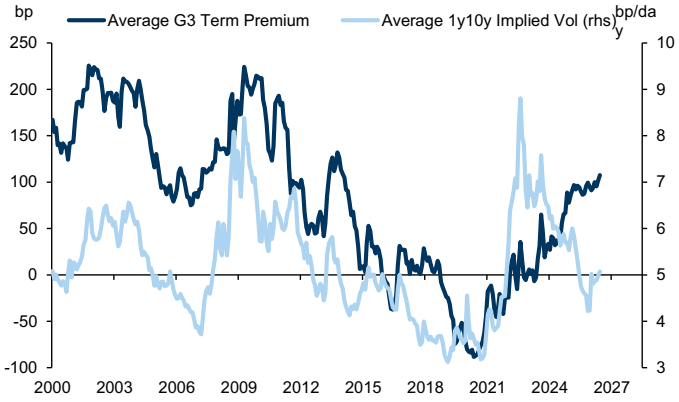
Exhibit 3: US 5y5y yields are about fair
UST 5y5y vs model fair value



Source: Goldman Sachs Global Investment Research

4. High premium, low volatility. As above, we expect term premium to remain relatively sticky as fiscal risks remain unresolved. But cyclical relief is likely to continue to see volatility and term premium decouple. Typically, there is strong co-movement between volatility and risk premium, but this has diverged as rates volatility has declined from the highs of the 2022-23 hiking cycle. Even in the US, where the shift in Fed communication has supported higher term premium on the back of reduced clarity around the reaction function, the observed upswing in volatility has been mostly focused at the very front-end. We think that in the current environment it is consistent for rates volatility to remain low despite high premium, as was common in the pre-GFC period (Exhibit 4). This suggests that carry expressions that go with the grain of the current macro backdrop make sense, for example distributional trades on the US front-end and EUR 5s30s curve steepeners. Relatedly, swap spreads are also not where we expect fiscal premium to manifest—various measures to aid bond supply digestion can support sovereign debt versus swaps, even when duration risk premium remains elevated.

Exhibit 4: High premium, low vol combination was common pre-GFC
Average of yield curve-only and survey-based term premium across G3 (GDP weighted) and average implied vol (GDP weighted)

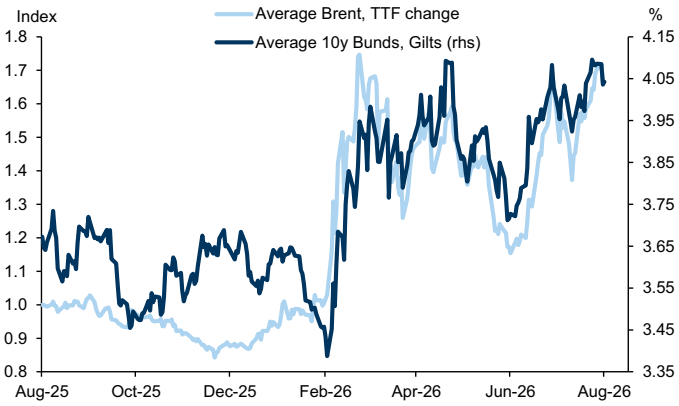


Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

5. Energy still the driver in Europe. While much of the focus of global rates markets has been on US and Japanese yields and policy responses, energy prices are still the main source of vol for European and UK rates (Exhibit 5). The drift to fresh highs in European gas alongside cyclical resilience and ongoing evidence of stronger German fiscal spending are likely to keep ECB hike risk beyond September in play. Unlike in the US and UK, where we expect the data flow to support an on hold Fed and BoE, we think that a September ECB hike will see EUR 2s5s out-flatten the US and UK curves. The ECB has the shortest fuse on inflationary risks among the major central banks, which we think will protect longer-dated forward rates in Europe vs other markets, including Japan. We expect Bund yields to drop modestly to 3.0% at end-2026, but volatility to remain low. This suggests that 5y5y rates in Europe remain a reasonable long, and help offset the negative carry shorting steep curves elsewhere, such as Japan. Sovereign credit in Europe should be able to weather modest ECB tightening beyond September, especially given the resilient growth backdrop. But the proximate risk comes from politics, especially for OATs where attention is already moving towards next year's presidential election. Although we think current OAT-Bund spreads already discount France's weak fiscal fundamentals, further widening risk is plausible, leaving belly Spain or ex-France semi-core as the preferred long for EGB carry.

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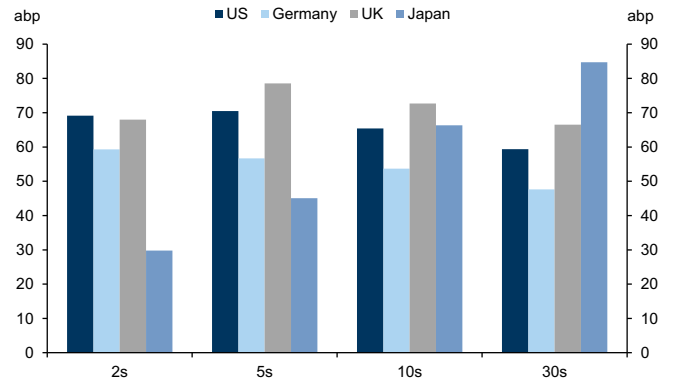
Exhibit 5: Energy prices remain the main driver of European rates
Average of 10y Bunds and Gilts, average of Brent and TTFZ6 change (Index = 1, August 26 2025)



Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

6. UK budget still all about the macro. While there will be much more to say on policy specifics into the UK budget, the issue for Gilts remains a macro one. Namely, the level of headroom—the buffer against the balance budget rule—is low compared with the macro volatility that drives the headroom calculation. This suggests that fiscal policy decisions and as a result pressure on yields are tethered to energy prices, so it should be no surprise that the Gilt market remains the highest beta to global yield and energy developments. Higher energy prices will squeeze the UK budget via higher inflation and interest costs, complicating fiscal choices and driving higher uncertainty and risk premium. At the same time, lower energy prices provide breathing room under the current budget framework, and will allow a bigger compression of Gilt risk premium. We continue to forecast Gilt yields at 4.5% at year-end, but expect volatility to remain high, in contrast to Europe, which means our Gilt forecasts are a bit less bullish on a relative vol-adjusted basis (Exhibit 6). This points to upside risks to our forecasts, especially ahead of the upcoming budget, and undermines the case for belly or long-end Gilts, and so we continue to favor 2s10s steepening expressions.

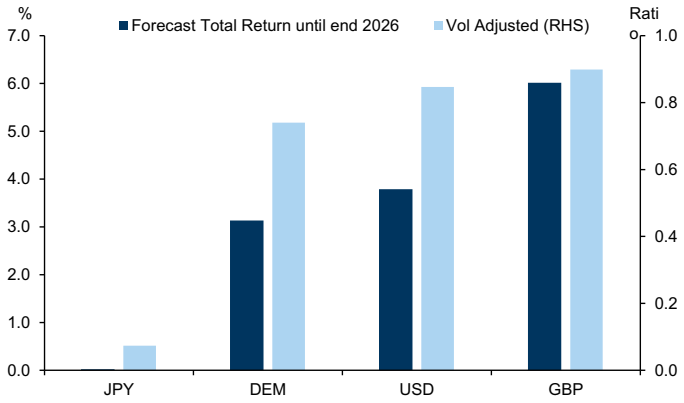
Exhibit 6: We expect UK belly volatility to remain elevated versus peers
Realized volatility of USTs, Bunds, Gilts, and JGBs, last 3m



Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

7. Making progress, but conditions not yet there to buy JGBs. In Japan, an earlier hike would be a welcome step for long-end stabilisation, but the hurdle to out-hike the front-end remains high. Our Japan team's recent BoJ forecast revisions are close to market forwards, but the precedent of a September hike would likely keep belly rates rising in the near term. We now expect 10y JGB yields at 3.0% by year-end, from 2.5% currently, as the market is likely to keep pricing risks of further hikes until the fiscal and inflation outlook becomes clearer. This implies a path for real rates that we think will prove to be unsustainable in Japan, pointing to increasing asymmetry towards lower 10y yields vs the current forwards. However, we think the macro conditions are not yet there to support long JGBs, and we continue to see 10y JGBs as offering the lowest total returns among the G4 (Exhibit 7).

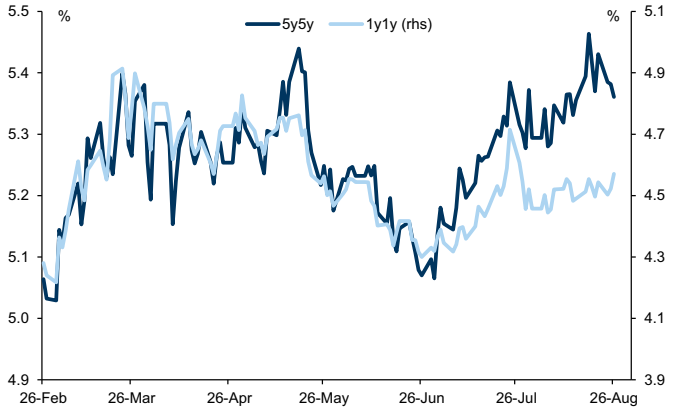
Exhibit 7: We expect 10y JGB total return to be around zero through year-end
YE26 forecast-implied total return to 10y bonds



Source: Goldman Sachs Global Investment Research

8. Different risks, similar themes for smaller G10 markets. As with larger markets, we think selective positive carry steepening exposure makes sense in select smaller G10 economies, whereas long biases are best expressed in spots where policy is likely to be comparatively front-footed. Trade uncertainty and a large output gap are likely to keep the BoC firmly on hold, while US spillovers can keep longer-term forwards anchored higher and support a steeper 2s10s CAD curve. While we think the RBNZ delivers via near-term hikes, the extent of hike risk priced through the NZD forward curve leaves 2s10s NZD steepeners still well positioned as well. We think AUD duration is a relatively attractive long within G10 even as the RBA is likely to hike once more. The additional hike is mostly priced and would take the policy rate to a new cycle high (and the highest among G10 economies), while the forward path for growth and inflation, plus relatively cheap longer-term forwards, should all serve to insulate duration (Exhibit 8).

Exhibit 8: Long-term AUD forwards stand high relative to the front-end
AUD 1y1y/5y5y swap rates



Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

TRADE IDEAS

Best Trade Ideas Across Assets

For pricing, charts, and a list of previous recommendations, please visit our Trade Ideas page.

1. Stay short SGD/MYR, opened January 24, 2026, at 3.13, with a target at 2.90 and a stop at 3.30, currently trading at 3.17.
2. Stay long TRY, NGN and KZT against the USD, as an equally weighted basket, opened February 18, 2026, at 0%, with a revised total return target at 10%, and a revised stop at 4%, currently trading at 7.5%
3. Stay long 3y SOFR swap spread, opened 17 April 2026, at -22.6bp, with a revised target at -14bp inclusive of carry; and a revised stop at -19bp, currently trading at -17.3bp.
4. Stay short USD/EGP, opened 24 April 2026, at 0%, with a revised total return target at 12% and a revised stop at 5%, currently trading at 9.6%.
5. 1y forward 2s10s GBP OIS steepeners, opened 29 May 2026, at 0.38, with a target at 0.55 and a stop at 0.25, currently trading at 0.36.
6. Stay long INR 30y bonds, opened 27 June 2026, at 7.34%, with a target at 6.90% and a stop at 7.65%, trading at 7.48% as of 24 August 2026.
7. 2s10s NZD steepeners, opened 03 July 2026, at 72bp, with a revised target at 95bp and a revised stop at 80bp, currently trading at 81bp.
8. 2s10s CAD steepeners, opened 10 July 2026, at 53bp, with a target at 80bp and a revised stop at 58bp, currently trading at 62bp.
9. Stay short AUD/NZD, via 6m (14 Jan 2027) 1.1650 puts, opened 14 July 2026, at 1.2000, currently trading at 1.2060.

10. Stay long NIFTY Banks vs. short NIFTY Pharma, opened 15 July 2026, at 100 in local currency (INR), with a target at 115 and a stop at 90, currently trading at 98.
11. 2s5s SOFR steepeners versus OIS flatteners in Europe, opened 31 July 2026, at -7bp, with a target at 10bp and a revised stop at -7bp, currently trading at -6bp.
12. Stay short PLN/HUF, opened 5 August 2026, at 84.12, with a target at 80.5 and a stop at 87, currently trading at 83.94.
13. Receive 10y AUD swap, opened 14 August 2016, at 5.10, with a target at 4.80 and a stop at 5.25, currently trading at 5.21.
14. Buy a 6m1y A/A-40/A-80 receiver fly, opened 14 August 2016, at 9bp running, with a target at 20bp and a stop at 4bp, currently trading at 7bp.

Global Interest Rates Strategy

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