What's really driving up Treasury yields?

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Key Observations

Yields on 10-year Treasuries have risen this year after opening near their historical average of about 4%. With core inflation still elevated but holding relatively steady, a rise in real interest rates may be to blame for the increase in Treasury yields.

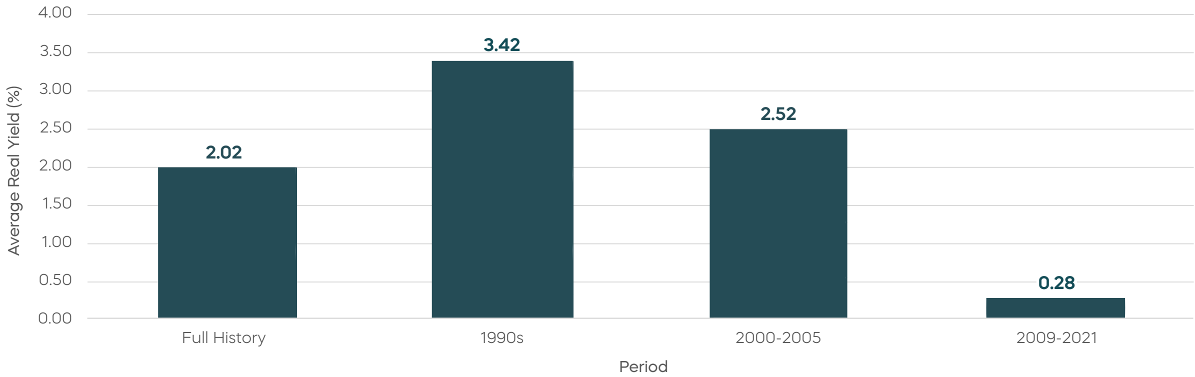
2026 began with 10-year Treasuries right around 4%, which many viewed as a comfortable place. The comfort came from some simple math—2 plus 2 equals 4. The long-term real yield on the 10-year Treasury was around 2% and the Fed's inflation target is 2%.

Now, the 10-year Treasury yield is approaching 5%. Why is that?

It's tempting to blame oil prices and inflation, but the numbers appear to tell a different story. Core CPI sat at 2.6% at the end of 2025, and the latest reading came in at 2.5%.[1] That means the increase in the 10-year Treasury yield must have been driven by an increase in the real yield, rather than accelerating price increases.

Chart of the Month

10-Year Real Treasury Yield: Historical Averages



Source: Bloomberg. Data from 3/30/62 through 6/30/26.

For Treasuries, using long-term averages as a benchmark can be misleading. The average real yield for the 10-year Treasury has been approximately 2%, as you can see from the historical average charted above. But that includes a range of distinct cycles, including the Quantitative Easing period from the Great Financial Crisis through Covid, when the government's purchasing of long-term bonds to suppress longer-term interest rates did its job by keeping real interest rates near zero.

So then, what is the "right" level for real interest rates today? It's difficult to predict exactly, but rates were higher throughout the 1990s, and even during the "flight-to-quality" moderation period of the early 2000s, real rates stayed materially above 2%.

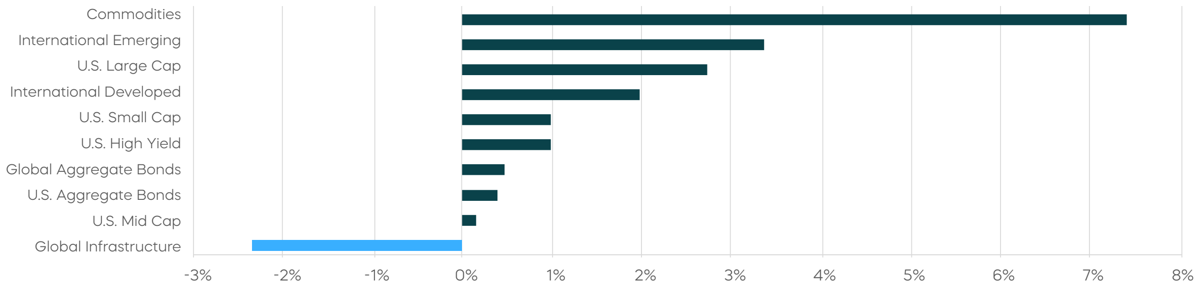
The potential for higher real rates for longer may linger; it's one reason Fed Chair Kevin Warsh's hawkish Jackson Hole speech and emphatic commitment to 2% inflation didn't have much impact on longer-term interest rates. That potential may also be part of the reason Secretary Bessent's August announcement of scaled-up bond buybacks didn't have much impact either.

1 Source Bloomberg, data as of 9/1/26.

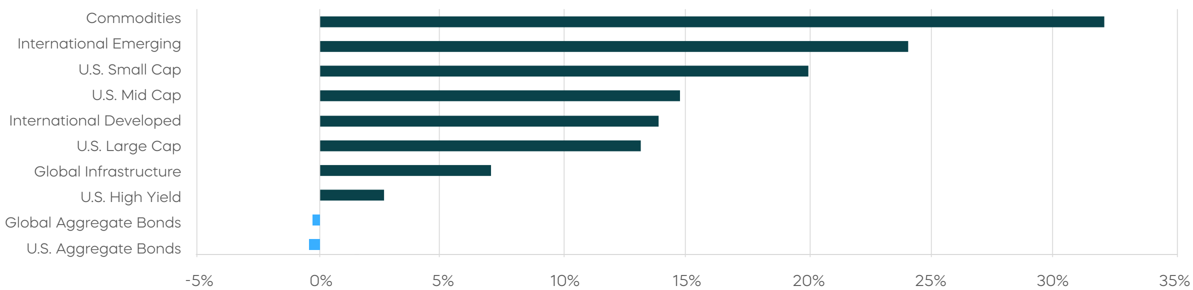
But here's some possibly good news. If a "right" or "regular" level of real interest rates is materially higher than the historical average of 2%, then perhaps current levels (or even modestly higher levels) might not be as much of a headwind to the economy or stocks as many fear.

Asset Class Perspectives

Asset Class Returns – August 2026



Asset Class Returns – Year-to-Date 2026



Source: Bloomberg. July returns 8/1/26–8/31/26; year-to-date returns 1/1/26–8/31/26. Index returns are for illustrative purposes only and do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

The following are observations on a range of asset classes. For each, green indicates a constructive backdrop, yellow indicates a neutral environment, and red would indicate a challenging backdrop.

Asset Class		Key Observations
Equity		
U.S. Large Cap		Above trend earnings growth is generally anticipated to continue and may offset concerns of rising yields.
U.S. Mid Cap		A mid-cap allocation may remain a straightforward offset to historically high large cap concentration risk.
U.S. Small Cap		Consider looking to higher quality small caps for a potential to outperform.
International Developed		Investors may want to underweight developed markets, as earnings momentum has been stronger in the U.S.
International Emerging		Semiconductor concentration may be worth keeping an eye on.
Fixed Income		
U.S. Aggregate Bonds		Real yields, not inflation expectations, may have been driving yields higher.
U.S. High Yield		Spread tightening combined with the potential for rising real yields may present a valuation challenge.
Global Aggregate Bonds		Opportunities may emerge in select countries where markets have aggressively priced in rate hikes tied to energy shocks.
Alternatives/Real Assets		
Commodities		Another potential end to the U.S. and Iran war could continue to put downward pressure on oil prices.
Global Infrastructure		Consider a focus on the owners of infrastructure assets, whose business models are generally inflation and recession resistant.

ProShares

Following is a list of key and upcoming economic releases, which may serve as a guide to potential market indicators.

Economic Calendar

Date Time	Event	Prior
9/01/2026 10:00	ISM Manufacturing	55.6
9/01/2026 10:00	JOLTS Job Openings	7359k
9/02/2026 10:00	Factory Orders	-0.30%
9/02/2026 2:00	Fed Releases Beige Book	–
9/03/2026 5:30	Challenger Job Cuts YoY	-46.10%
9/03/2026 8:30	Trade Balance	-$73.3b
9/10/2026 10:00	Wholesale Inventories MoM	1.30%
9/11/2026 8:30	CPI YoY	3.40%
9/11/2026 8:30	Core CPI YoY	2.50%
9/15/2026 8:30	Empire Manufacturing	20.6
9/16/2026 8:30	Retail Sales Advance MoM	-0.60%
9/16/2026 2:00	FOMC Rate Decision	3.75%
9/17/2026 8:30	Philadelphia Fed Business Outlook	47.4
9/17/2026 8:30	Housing Starts	1239k
9/17/2026 10:00	Pending Home Sales MoM	-2.30%
9/18/2026 9:15	Industrial Production MoM	0.20%
9/18/2026 9:15	Capacity Utilization	76.30%
9/18/2026 10:00	Leading Index	0.20%
9/24/2026 10:00	New Home Sales	607k
9/25/2026 8:30	Durable Goods Orders	–
9/29/2026 10:00	JOLTS Job Openings	–
9/30/2026 8:30	Personal Income	0.40%
9/30/2026 8:30	Personal Spending	0.20%
9/30/2026 8:30	Core PCE Price Index YoY	3.30%
9/30/2026 8:30	GDP Annualized QoQ	1.50%
9/30/2026 8:30	Wholesale Inventories MoM	–

Source: Bloomberg, data as of 9/1/26.

ProShares

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Equity Perspectives

Will higher treasury yields hamper equities?

Despite pressure pushing long-term Treasury yields to multi-year highs, the S&P 500 was up 2.7% in August and delivered multiple all-time highs, according to Standard & Poor's. Equity markets have demonstrated a remarkable level of resilience and have thus far side-stepped every macro challenge in 2026. The latest bogey: rising interest rates.

Rising long-term interest rates are often viewed as a headwind for equities. The conventional argument is straightforward: higher Treasury yields can raise financing costs and increase the discount rate, thus lowering the value of future corporate earnings and cash flows.

While this logic is valid, it overlooks an important point. The pace and volatility of changes in interest rates matter greatly. Thus far in 2026, the volatility of interest rate movements has been relatively well contained, considering the magnitude of the rise in 10-year yields.

The MOVE Index, which tracks the volatility in Treasuries, is not currently signaling a high level of stress. While it spiked in late March as anxiety over a new Fed Chair's expected rate path began to build, the MOVE index ended August at a relatively subdued level and only marginally above where it started at the beginning of the year.

As we've noted, the move in Treasury rates has been a function of rising real rates, not rising inflation expectations. Real rates may have risen for a variety of reasons, including an unwinding of QE and growing concerns over the fiscal deficit.

But after what has been a period of sustained economic resilience, perhaps one of the best explanations for the increase in real rates is that the market is reevaluating its estimate of the neutral real rate upward and the economy appears capable of sustaining that higher rate level without triggering a recession.

The bottom line? Combine ongoing expectations for strength in earnings growth with a resilient economy, and the outlook suggests that equity markets may be able to withstand these higher rates, as long as bond volatility remains relatively contained.

How can investors find high yield without the duration risk of bonds?

With continued pressure on bond rates, many investors are looking for income sources less correlated with interest rate risk. As a result, equity markets are an increasingly popular source of income.

One such approach is a traditional covered call strategy, which targets higher levels of income by selling monthly expiring options. These strategies have become widely available in ETF wrappers, but investors need to choose wisely. Traditional monthly covered call strategies have sacrificed a significant amount of the market's total return over time in exchange for their income.

Covered call strategies powered by daily options have improved this tradeoff. Since its inception in 2023, the S&P 500 Daily Covered Call Index has returned 71.9% compared to 50.8% for the CBOE S&P 500 BuyWrite Index—a proxy for traditional monthly covered call strategies.[2]

4 Bloomberg, data from 10/5/23 to 8/31/26.

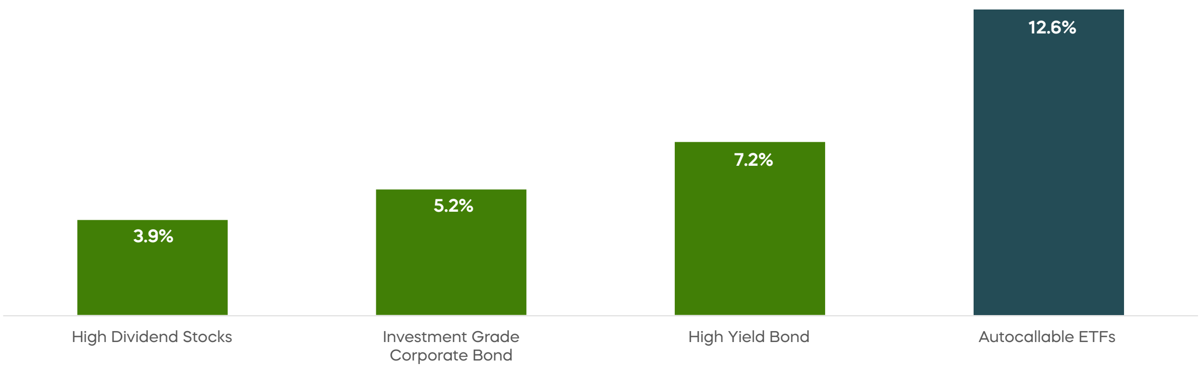
Autocallable strategies offer another equity related high-income strategy with significant potential. In simple terms, autocallables are structured investments that pay coupons periodically, and they return an investor's principal at maturity if the underlying equity-linked index has not fallen below a certain barrier level at the time of maturity.

Traditionally, investing in autocallables involves a complicated process of managing individual structured notes. The challenges of juggling a portfolio of individual notes include managing reinvestment risk if the notes are called early, opaque pricing, and a lack of liquidity on the secondary market.

There are, however, autocallable ETF strategies that may offer a simpler solution (based on indexes like the S&P 500 Futures 35% Volatility Compass Autocall Index, for example). Index-based ETF strategies typically offer a laddered structure designed to track a portfolio of multiple autocallable notes. A laddered strategy may provide a more reliable return profile and income stream, while also potentially helping to address concentration and timing risks compared to single notes.

Autocallable ETFs are typically designed to target high income and offer potentially tax-efficient distributions. And compared to typical fixed income investments like corporate bonds, autocallable ETFs have generated double-digit distribution rates.

Autocallable ETFs May Offer Higher Distribution Rates



*Source: Bloomberg, The yields and distribution rates shown are based on selected market indexes and ETFs and are provided for illustrative comparison only. **These measures are calculated using different methodologies and should not be viewed as directly comparable. A higher yield or distribution rate does not necessarily indicate a higher income or a higher total return. Distributions are not guaranteed, may fluctuate, and may include return of capital, which reduces an investor's cost basis.** Distribution rates are based on selected indices and funds and are shown for comparison only. Source: Morningstar, Bloomberg, as of 6/30/26. **High Dividend Stocks** represented by the trailing 12-month yield for the Dow Jones U.S. Select Dividend Index, **Investment Grade Corporate Bond** represented by the market value weighted average yield to worst for the Bloomberg US Corporate Bond Index, **High Yield Bond** represented by the market value weighted average yield to worst for the Bloomberg US Corporate High Yield Bond Index. **Autocallable ETFs** represented by average yield (current yield at NAV, Morningstar) of ETFs in the Morningstar Derivative Income category with autocall in the fund name, excluding single-stock autocallable strategies. Because most ETFs in this category were launched within the past 12 months, a 12-month yield is not available for these funds. High Dividend Stocks represent the U.S.'s leading stocks by dividend yield. Investment Grade Corporate Bonds are bonds that are believed to have a lower risk of default and receive higher ratings by credit rating agencies. High-yield Bond is a type of corporate bond that offers a higher rate of interest because of its higher risk of default.*

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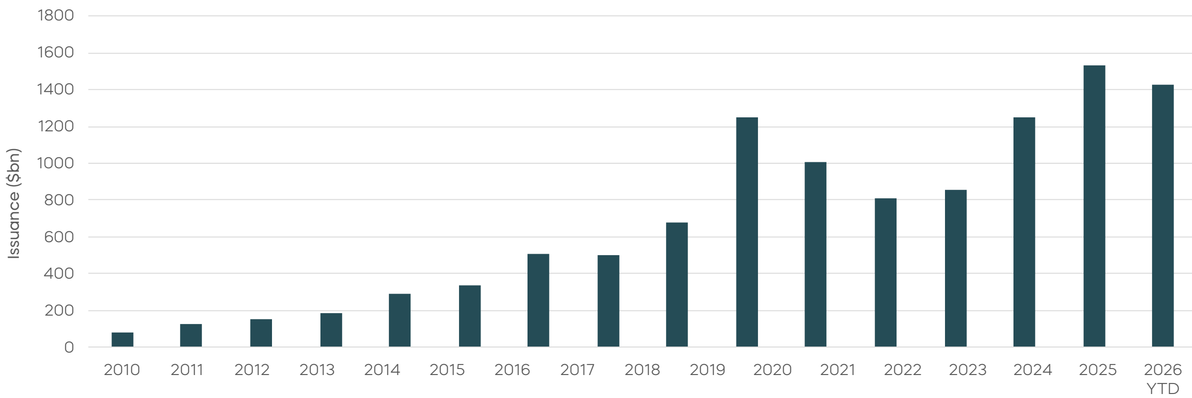
Fixed Income Perspectives

Why are credit spreads near all-time lows?

Credit spreads are tight and issuance is at record levels. A key driver of issuance has been, of course, financing for AI infrastructure. While high issuance often widens credit spreads as supply challenges demand, it hasn't been doing so recently.

Investment Grade Bond Issuance Has Risen Substantially

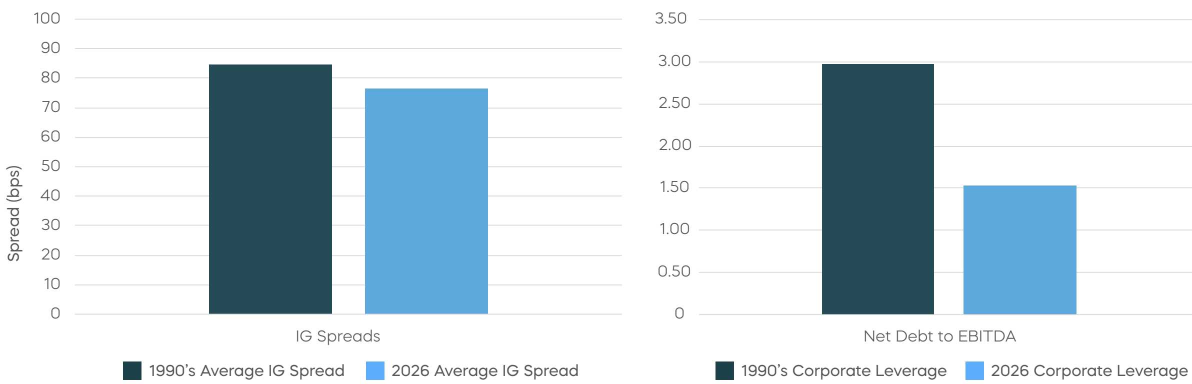


Source: Bloomberg, data from 1/1/10 to 8/31/26.

Credit spreads are in the vicinity of all-time lows. That has caught the attention of investors, concerned that tight spreads may be on the cusp of widening in the face of an excess supply of credit. That could put corporate bond prices at risk.

However, there may be an important offset to these tight spreads. Corporate balance sheets have been very strong recently, carrying less leverage than in the past.

Spreads Have Tightened but Corporate Leverage Has Declined

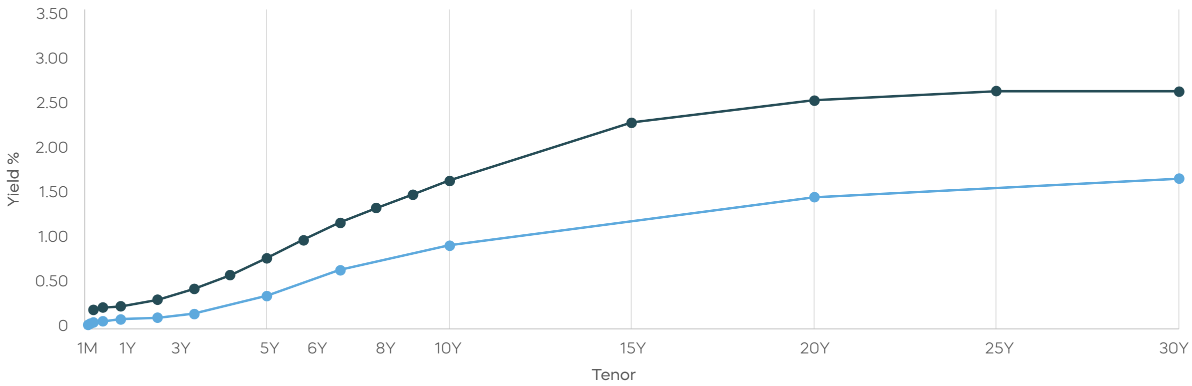


Source: Bloomberg, data from 01/01/90 to 08/31/26.

Investment grade bond spreads are only a smidge tighter than they were in the 1990s, but Net Debt to EBITDA, a key leverage measure, stands at only half of its 1990s average. And the stunning earnings growth we've been seeing this year is beginning to make its way to bottom lines, which has begun to drive driving leverage down even further. Bloomberg consensus forecasts have Net Debt to EBITDA down to 1.1 by the end of 2026. Investment grade bonds may not be cheap today, but with leverage at these levels, they may be fairly priced.

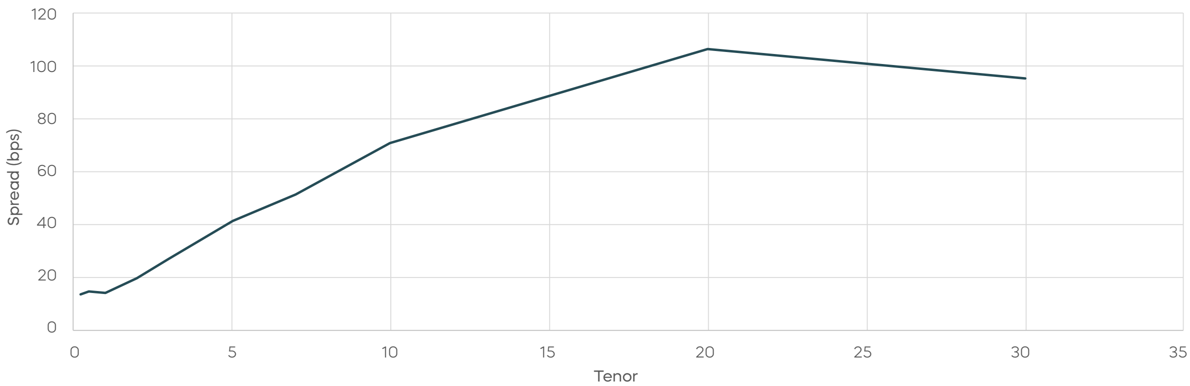
Credit spreads, however, have not been consistent across the yield curve.

U.S. Treasury and Investment Grade Yield Curves



Source: Bloomberg, data as of 8/31/26.

Investment Grade Corporate Spread to Treasuries



Source: Bloomberg, data as of 8/31/26.

For single-A credits, for example, credit spreads have not been too far from zero for bonds with very short tenors. Spreads that are more in the range of the index-level spreads noted in the chart above aren't being seen until 10-year terms and beyond. And these longer-dated bonds come with a risk of loss driven by higher Treasury yields—a material risk these days.

It may be timely to consider hedging the Treasury-rate risk of longer-dated corporate bonds. That approach may enable investors to harvest those wider credit spreads, while also offering some protection against potentially rising Treasury yields.

Sources for data and statistics: Bloomberg, FactSet, Morningstar, and ProShares.

The different market segments represented in the performance recap charts use the following indexes: U.S. Large Cap: S&P 500 TR; U.S. Large Cap Growth: S&P 500 Growth TR; U.S. Large Cap Value: S&P 500 Value TR; U.S. Mid Cap: S&P MidCap TR; U.S. Small Cap: Russell 2000 TR; International Developed Stocks: MSCI Daily TR NET EAFE; Emerging Markets Stocks: MSCI Daily TR Net Emerging Markets; Global Infrastructure: Dow Jones Brookfield Global Infrastructure Composite; Commodities: Bloomberg Commodity TR; U.S. Bonds: Bloomberg U.S. Aggregate; U.S. High Yield: Bloomberg Corporate High Yield; International Developed Bonds: Bloomberg Global Agg ex-USD; Emerging Market Bonds: DBIQ Emerging Markets USD Liquid Balanced.

The different market segments represented in the fixed income returns charts use the following indexes: Global Agg Bond Market: Bloomberg Global-Aggregate Total Return Index Value Unhedged USD; Mortgage Backed Securities: Bloomberg U.S. MBS Index Total Return Value Unhedged USD; Treasury Bonds: Bloomberg U.S. Treasury Total Return Unhedged USD; U.S. Agg Bond Market: Bloomberg U.S. Agg Total Return Value Unhedged USD; Corporate Bonds: Bloomberg US Corporate Total Return Value Unhedged USD; High Yield Bonds: Bloomberg U.S. Corporate High Yield Total Return Index Value Unhedged USD; Interest Rate-Hedged High Yield Bonds: FTSE High Yield (Treasury Rate-Hedged) Index; Treasury Inflation Protected (TIPS): Bloomberg U.S. Treasury Inflation Notes TR Index Value Unhedged USD; Short term (1-3 Yr) High Yield: Bloomberg U.S. Corporate 0-3 Year Total Return Index Value Unhedged USD; Senior Loans: Morningstar LSTA U.S. Leveraged Loan 100 Index; Short term (1-3 Yr) Corp Bonds: Bloomberg U.S. Corporate 1-3 Yr Total Return Index Value Unhedged USD; Floating Rate: Bloomberg U.S. FRN < 5 yrs Total Return Index Value Unhedged USD; Interest Rate-Hedged Corporate Bonds: FTSE Corporate Investment Grade (Treasury Rate-Hedged) Index.

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