The Death of the Safe Haven: How to Fix Your Bond Strategy as Yields Rise

The rise in U.S. Treasury yields is creating opportunities—along with serious portfolio risks.

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Updated Sept 03, 2026 10:23 am EDT / Original Sept 03, 2026 3:00 am EDT

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There is no quick fix for the problems bedeviling the bond market, whether persistent inflation, rising government debt, or the torrent of issuance by corporate borrowers that threatens to crowd out demand for U.S. Treasuries. Thus, bond investors now need a different and more strategic approach to their bondholdings than they did just a year or two ago.

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The bond market's proximate concern is inflation, which eats away at the value of the money returned to investors when their bonds mature. Although inflation has fallen sharply from a postpandemic high of around 9%, it has recently been running at a 3.4% annual rate based on the consumer price index, partly reflecting higher energy prices tied to the Iran war.

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Federal Reserve Chairman Kevin Warsh has pledged to bring inflation back down to the central bank's longtime target of 2%. But some skeptics doubt his ability, if not his

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Rising government debt, not only in the U.S. but across the developed world, presents a longer-term worry for bond investors. For one, it adds to the supply of bonds, which depresses prices and pushes up yields. Indeed, debt-related worries may be the biggest driver of the recent run-up in yields, given that market-based measures of inflation expectations have stayed in check even as rates have risen.

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While rates in much of the world have been rising in concert with the U.S., emerging market bonds have performed relatively well. Louis-Vincent Gave of Gavekal Research recommends buying Chinese bonds, in part because he thinks the Chinese currency is undervalued and the Chinese government is allowing it to rise a bit. "Combine this forex