What's Hot: How to deal with the challenge of elevated real yields in portfolios

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Wichtige Erkenntnisse

- **Real yields are at post-financial-crisis highs.** US 10-year real yields have reached 2.77% above inflation, driven by growth expectations and heavy debt supply rather than inflation fears.
- **Hyperscalers are now major bond issuers.** AI-related capex has pushed companies like Alphabet and Amazon to issue ~$250bn of debt so far this year (~$400bn by year-end), with heavy issuance likely to continue into 2028 and keep pressure on yields.
- **Investors face a funding dilemma.** Bonds look attractive, but few want to cut equities amid ~30% earnings growth. WisdomTree Efficient Core offers a way to add bond exposure while keeping most of the equity allocation.

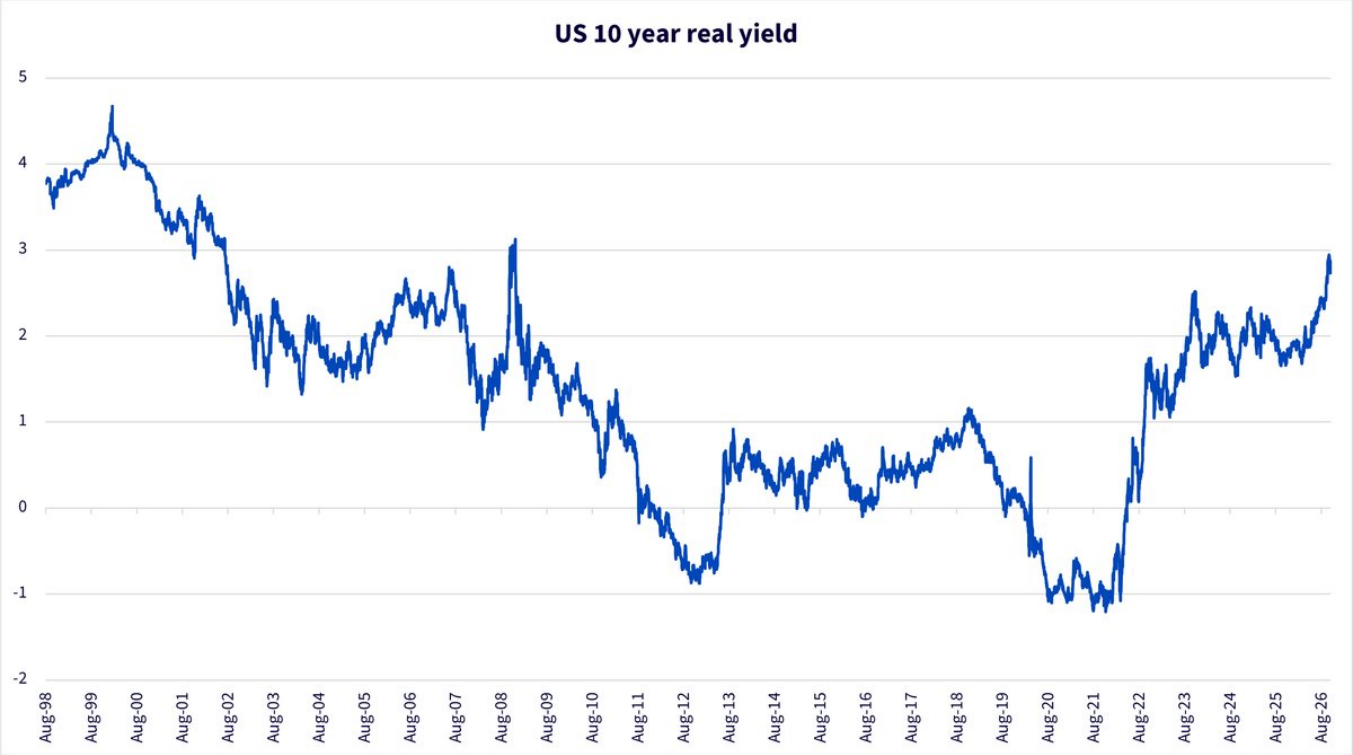
As investors look back at the start of the year, they are clearly not standing where they thought they would be at this time of year. Instead of cutting rates, the Federal Reserve hiked rates once in September. Rates in many developed countries are higher than at the same point last year. In fact, US 10-year real yields, meaning 10-year Treasury yields adjusted for expected inflation, have risen to their highest level since the financial crisis at 2.77% above inflation. This is a very big shift that investors need to address in the construction of their portfolio.

Interestingly, near-term inflation concerns haven't been the main driver of higher yields. Inflation expectations, as priced by bond investors, have remained well anchored. The drivers of the bond sell-off need to be found more in anticipated economic growth and the issuance imbalance.

The US economy is in the midst of a debt-fuelled capital expenditure boom, driven primarily, but not entirely, by AI-related spending. That boom comes at a time when government issuance has to compete with an ever-increasing supply of debt from investment-grade hyperscalers.

Figure 1: Historical US 10-year real yield

%, daily, August 1998 to 16 October 2026



Source: Bloomberg, as of 16th October 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Growth has changed shape

US economic growth has been resilient amid numerous challenges, but it is hard to argue that 2.3% growth is anything but “on trend”. What has clearly shifted is the nature of that growth, from one reliant on household savings and incomes to one driven by corporate expenditure. The consequences of this shift for capital demand and the velocity of money can't be overstated.

For as long as anyone can remember, US companies have avoided capex and sought other ways to boost shareholder returns. In the early 2000s, low rates and low valuations made businesses attractive to private equity. Post-GFC[1], buyback activity helped lift shareholder returns, although one can argue it hasn't kept pace with the expansion in margins and cash generation we have seen.

Hyperscalers become bond issuers

That brings us to the present. The largest, most profitable companies ever created have taken it upon themselves to lead us into the next phase of the technological revolution. Initially, they worked down excess balance-sheet cash accumulated over the prior decade. Now they need additional capital beyond the cash generated by revenue, and for the first time, they have become major debt issuers.

Unsurprisingly, bond investors welcomed these companies' issuance. But as the capex cycle has grown in scale, the sheer volume of supply has started to overwhelm investor appetite.

Figure 2: Hyperscaler Debt Issuance

$250bn	~$400bn	2028
Estimated hyperscaler debt issuance by year-end	Likely full-year issuance for broader tech and AI related issuers	Heavy issuance could continue until at least then

Source: TwentyFour Asset Management, "How hyperscaler issuance is reshaping the Treasury curve" blog post published on 3rd September 2026.

Hyperscalers, from Alphabet to Amazon, have already issued $250 billion of debt this year, with full-year issuance closer to $400 billion when all is said and done. The good or bad news, depending on how you are positioned, is that it doesn't end in 2026. Next year's issuance calendar is likely to be busier still, and this may continue into 2028.

What this means for bond yields

Continued supply will keep pressure on yields, as competition for capital causes investors to seek higher compensation.

The good news is that corporate profits are growing and defaults are low. That supports overall risk appetite and keeps access to capital open. Inflation expectations also remain well anchored. The main drivers of inflation at present are energy-cost related. This is pressuring near-term measures of inflation, but it isn't distorting wage growth, services or even goods inflation.

That can change, and last week's CPI[2] print showed some signs that core inflationary pressures (ex-food and energy) are slightly firmer. Like the bond market, our base case is that the Fed still has work to do and will likely raise rates in December. Even so, economy-wide inflation is contained for now, and the other side of the dual mandate, unemployment, continues to exert downward pressure and act as an offset.

Asset allocation view

US government bonds now offer returns almost 3% above the expected inflation rate. Higher yields have shifted estimated bond returns, yet investors are mindful not to miss the earnings boom and its impact on equity markets. No one wants to de-risk into the 30% earnings growth that US equities are currently delivering. That leaves asset allocators with a difficult choice as they seek optimal outcomes for clients: higher bond allocations are hard to fund without reducing either equities or alternatives within portfolios.

A possible solution: WisdomTree Efficient Core

WisdomTree has a range of strategies that allow investors to retain the majority of their equity exposure while allocating to bonds. The WisdomTree Efficient Core range is a way for asset allocators to improve long-term client outcomes without having to identify or time the next decline in the economy or the next source of inflation.

The strategy consists of:

- **Equity Exposure**: 90% allocated to a diversified ESG-screened basket of large-cap stocks (being US, Eurozone or Global Equities depending on the strategy).
- **Bond Exposure**: 60% allocated to a diversified basket of government bond futures, spanning maturities from 2 to 30 years.
- **Cash Collateral**: 10% cash, serving as collateral for the futures contracts.

By dynamically combining equity and bond exposures in a leveraged, risk-balanced structure, the Efficient Core approach enhances the traditional 60/40 portfolio while preserving equity-like characteristics.

There are a number of ways to get paid as a bond investor right now. The Efficient Core range provides a capital-efficient route to portfolio diversification, allowing bonds to play the role they are best suited for within portfolios.

[1]GFC is referred to Global Financial Crisis

[2]CPI refers to Consumer Prices Index

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