M1 CAPITAL
INVESTMENT MANAGEMENT

Rising yields – Market Commentary

April was about tariff trouble and market volatility, although it all came to nothing as the US administration changed course and the equity market recovered to end the month higher than where it started.

The S&P 500 did register a mild decline of -0.7%, though the Nasdaq rose +1.6%, as did the MSCI World +0.9%. Growth outperformed strongly at +3.2%, while Value was negative at -1.4%. The Value underperformance is not necessarily a surprise since Value tends to underperform in times of market and/or economic stress.

Emerging Markets were slightly higher at +1.3%, while SA outperformed returning +3.1% in USD and +4.3% in local currency terms.

The various market returns are summarised in Table 1 below.

Table 1. South African and global equity returns (USD) for April 2025*

	Apr-25	YTD 2025
FTSE/JSE ALSI (ZAR)	4.3%	10.5%
FTSE/JSE ALSI (USD)	3.1%	12.1%
MSCI World	0.9%	-0.9%
MSCI EM	1.3%	4.3%
MSCI Value	-1.4%	3.4%
MSCI Growth	3.2%	-4.8%
S&P 500	-0.7%	-5.0%
Nasdaq 100	1.6%	-6.6%

*Total return indices, Source: Factset

Global markets appear to have shifted emphasis from worries about tariffs (perhaps concurrently) to worries about sovereign default. Or so we are told – rising US Treasury and Japan government bond yields indicating concerns about overindebtedness of these economies.

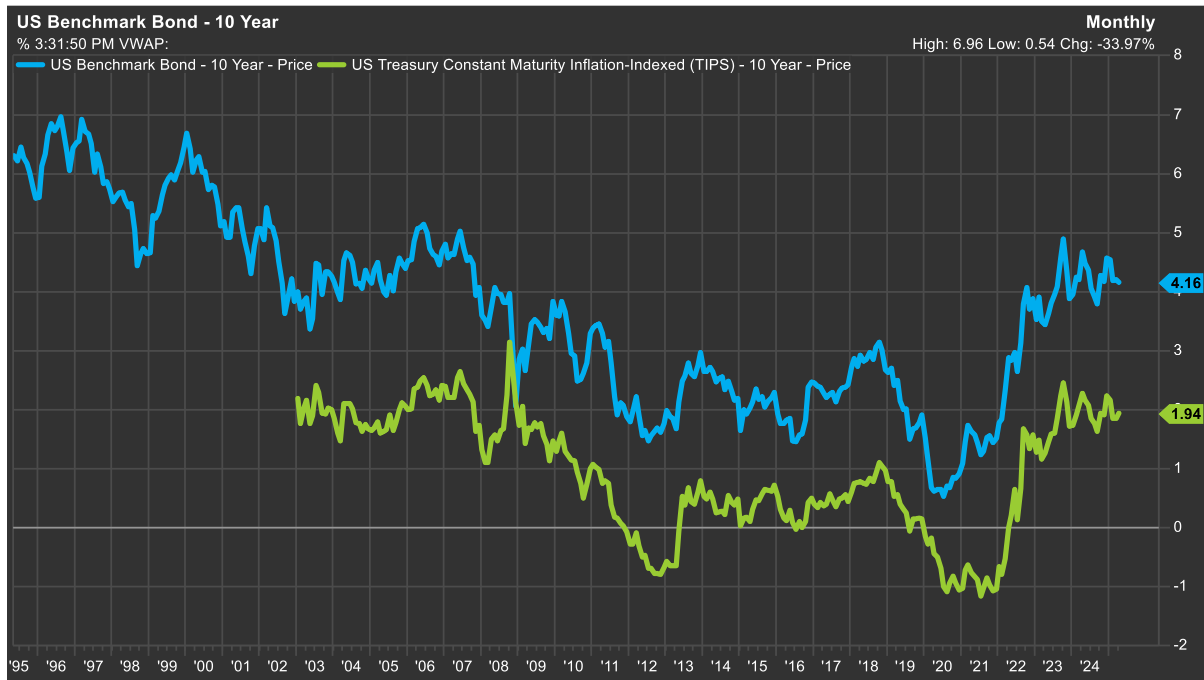
US

We consider the US first. Indeed the US 10-year Treasury yield started out in May at 4.2% and rose to 4.6% before falling back at the time of writing to 4.4%. A longer term chart provides useful, perhaps better, context however. Chart 1 below plots the US 10-year Treasury and the US 10-year inflation-protected i.e. real yield over a period longer than the current month.

Per Chart 1 it would appear the best that can be said in terms of trend is that the US Treasury yield is flat to slowly declining. This is of course inclusive of shorter term fluctuations likely arising from funds investing and disinvesting, short term trader activity etc. It appears the rising yield commentary is rather a consequence of a 24-hour news cycle and a focus on every short term move complete with analysis and insight.

More importantly from Chart 1 below, we point out that the underlying real yield on the US Treasury Inflation-Protected Securities ("TIPS") is near-identical to the nominal in terms of basis points i.e. a good way to examine this in more detail is to plot the breakeven inflation rate or the difference between the nominal and real yield. This we do in Chart 2.

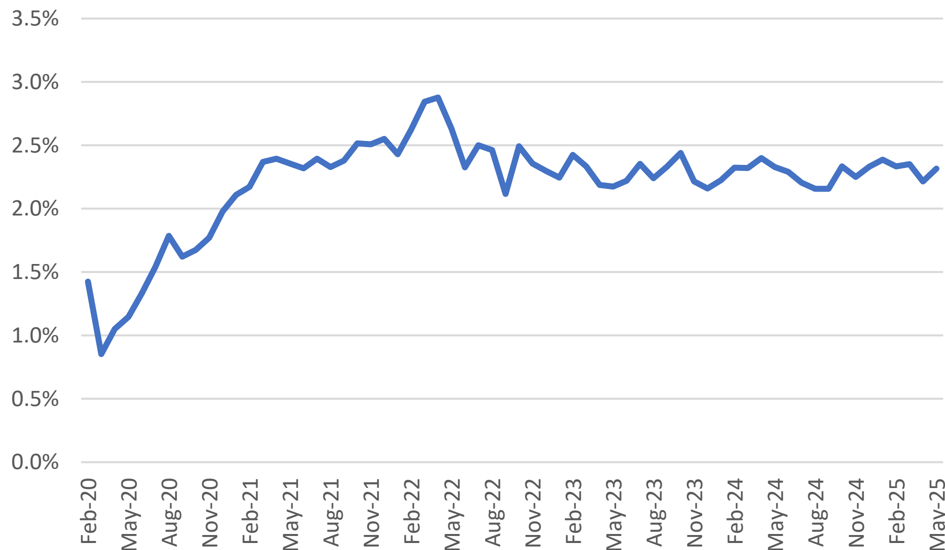
Chart 1. US 10-year Treasury and 10-year TIPS (real) yield



Source: Factset

Per Chart 2 below, the breakeven inflation rate, or the difference between the nominal and real 10-year Treasury yields (in Chart 1) has been more or less constant since June 2022 at an average of 2.3%.

Chart 2. Breakeven inflation rate



Since the breakeven rate incorporates expectations of inflation plus a risk premium, an increased sovereign risk premium should be incorporated in the breakeven. As is evident there is no such increase in the risk premium i.e. the Treasury market suggests there is no increased sovereign risk, and, incidentally, there is also no increased inflation risk.

How did Treasuries behave in April?

We are also told Treasuries did not behave as they should in April i.e. in the throes of crisis yields did not decline. Really?

Chart 3 presents the 10-Treasury yield for the year-to-date in 2025, allowing closer examination of April's movements.

Chart 3. US 10-year Treasury yield

Source: Factset

The trough of the crisis was 4 April with the equity market rebounding thereafter. From Chart 3 we observe that the 10-year Treasury yield touched a low of 4% on 4 April, rebounding along with the equity market thereafter.

Moreover the 10-year Treasury yield also declined in February, along with the equity market, once the Atlanta Fed's estimate of negative Q1 GDP growth was out.

In conclusion, upon examination of the data it appears that Treasury yields behaved precisely as expected in recent months.

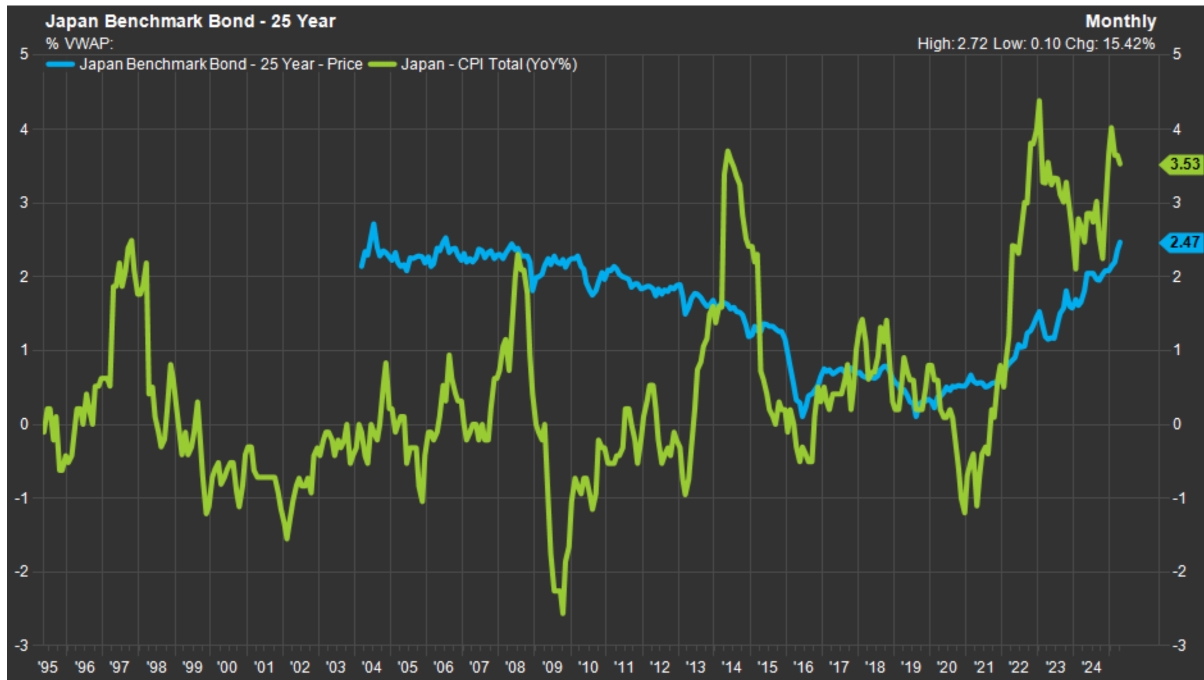
What about Japan?

The greater concern, we are also told, is the rising Japan Government Bond ("JGB") yield, especially since JGBs have had yields near 0% in recent memory.

Here, again, it appears there is not much unusual. Chart 4 presents the yield on a (longer duration) 25-year JGB, along with Japanese inflation.

Per Chart 4 below Japan CPI stands at 3.5% vs the JGB yield of 2.5% i.e. the government bond yield is below inflation. Depending on inflation expectations there may be a case for the JGB yield to be yet higher.

Chart 4. JGB yield vs Japan inflation



Source: Factset

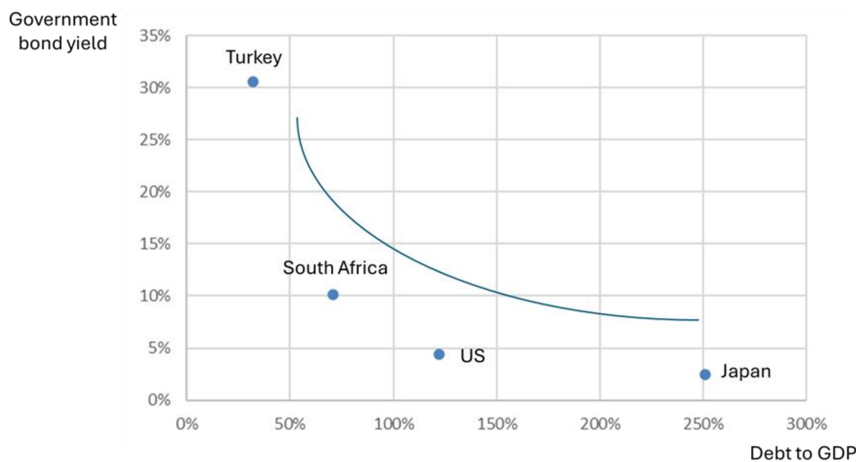
Yields and debt

As a general observation we also point out here that one (negative) correlation is that of debt to GDP and government bond yields i.e. (counterintuitively) the larger the debt pile the lower the interest rate. So Japan with public debt at 251% of GDP has current long rates of 2.5%, and the US with current public debt to GDP at 122% has a long rate of 4.4%.

Contrast with Turkey carrying debt to GDP of 32% and an interest rate of 30.5%, or even South Africa with debt to GDP at 71% and a long government bond yield of 10.1%.

We summarise these example countries in Chart 5 below.

Chart 5. Debt to GDP ratios vs government bond yields



Source: M1 Capital

The relationship between debt to GDP and yields is not the subject of this commentary but we suggest the explanation lies in the depth of savings in each market, as well as the fact that a central bank can monetise (or finance by printing money) a country's debt in its own currency. The danger of overdoing the latter lies in rising inflation and a depreciating currency.

Summary

In summary financial media have been telling us that developed market yields are rising and this is a problem as bond investors become wary of the risks of sovereign default. Examination of some sample underlying yields including those of the US, the largest market, reveal no immediate evidence of this. Nominal yields in the US have risen because real yields have risen, in line with a higher short term (Fed) rate. In Japan the inflation rate is higher, and the JGB yield, while indeed having risen, is still below the current rate of inflation.