

The US 10-year Treasury yield: why does this one number move every market?

Mortgages, stocks, the dollar, gold: one number moves them all, the yield on the 10-year US Treasury note. Here is why professionals check it every morning, and what it means for your savings.

The analysis: the price of money for the whole world

Every morning, before looking at stocks, many fund managers check a single number: the **yield on the 10-year US Treasury note**. It is the rate at which the US government, seen as the safest borrower in the world, borrows money for ten years.

Why does it matter so much? Because it is the **benchmark rate**. Every other rate is built on top of it, plus a premium: corporate loans, other countries' bonds and, above all, mortgages. If the safest borrower pays 4%, nobody riskier can borrow at 2%.

The 10-year works through three main channels.

1. Mortgages

In the United States, the 30-year mortgage rate tracks the 10-year closely. In 2021, it hovered around **3%**. By late October 2023, with the 10-year touching **5%**, it had reached **7.79%** according to Freddie Mac. For the same monthly payment, a household could borrow far less. The housing market froze.

2. Stock valuations

A stock is worth the sum of its future profits, brought back to today using an interest rate. The higher that rate, the less distant profits are worth today. Growth companies, whose profits are expected far in the future, suffer the most. In 2022, the 10-year went from about **1.5%** to nearly **4%**. The tech-heavy Nasdaq Composite lost **33%** over the year.

3. The dollar and gold

A high 10-year yield pulls capital from around the world into dollar assets, which supports the US currency. Gold, on the other hand, pays no interest. Next to a risk-free bond paying 4 or

5%, it looks less appealing.

The historical fact: from 15% to under 1%

The 10-year has not always been calm. In September 1981, to break double-digit inflation, Paul Volcker's Fed pushed rates to extreme levels: the 10-year yield rose above **15%**. 30-year mortgage rates climbed past 18%.

Then came a slide that lasted almost forty years. In August 2020, in the middle of the Covid crisis, the 10-year fell to around **0.5%**, its all-time low. Money had never been so cheap.

The reversal was brutal. As inflation came back, the 10-year climbed to **5% in October 2023**, a level not seen since 2007. The entire financial world had to reprice.

The anecdote: the adviser who wanted to come back as the bond market

In 1993, James Carville, Bill Clinton's strategist, realised the new president could not fund all his plans: if the deficit grew too much, long-term rates would rise and hurt the whole economy. His reaction became famous. He used to think that if there was reincarnation, he wanted to come back as the president or the pope. Now he wanted to come back as the **bond market**, because "you can intimidate everybody."

Thirty years later, the point still stands. A government can pass a budget. But it is the 10-year yield that decides how much that budget will cost.

KEY FIGURES — THE US 10-YEAR YIELD

≈ **1.5%**: the US 10-year yield in early 2022

≈ **5%**: the 10-year yield on 19 October 2023, the highest since 2007

3% → 7.79%: the US 30-year mortgage rate between 2021 and late October 2023 (Freddie Mac)

–**33%**: the Nasdaq Composite's fall in 2022, the year the 10-year surged

Above 15%: the 10-year's record high, reached in 1981

The lesson for your portfolio

The 10-year is the **thermometer of every market**. You do not need to predict it. You need to understand what it changes.

- **When it rises fast**, assets whose value rests on a distant future (growth stocks, property bought with debt) come under pressure. New bonds, meanwhile, pay more.
- **When it falls**, credit gets cheaper and valuations breathe again. Bonds you already hold gain value.
- **A portfolio concentrated** in one type of rate-sensitive asset takes the whole shock at once.

This topic closes the "Bons du Trésor" (Treasury bonds) video series on the Axone-Capital YouTube channel, which also covers the seesaw between bond prices and yields, the Fed's role and the yield curve. At Axone Capital, we start from these mechanisms to build allocations that hold up when the thermometer spikes.

Frequently asked questions

Why does the US 10-year yield affect borrowing costs in Europe?

Bond markets are connected. When the US 10-year rises, investors often demand higher yields elsewhere too, including on European government bonds. Banks, which fund themselves in these markets, then pass part of the increase on to their loans.

Does the Fed set the 10-year yield?

No. The Fed sets its policy rate, a very short-term rate. The 10-year yield is set by the market, through supply and demand for bonds. It reflects expectations for inflation, growth and future Fed rates.

Is a rising 10-year yield always bad for stocks?

Not always. A slow rise driven by a strong economy can go hand in hand with rising stocks. It is mainly a fast, unexpected jump, as in 2022, that drags valuations down.

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