中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

**Video subject: Yields Surge but USD Fails to Rise: Latest Stock & Bond Strategies Revealed**

**Video highlights:**

- Traditionally, rising U.S. Treasuries yields lead to a stronger USD. Currently, however, yields are rising while the greenback remains stagnant or falls. These Treasury yields are being driven up by an oversupply of U.S. debt issued to fund massive government deficits and roll over maturing obligations. At the same time, tariff policies and supply chain restructuring are keeping inflation expectations high, forcing investors to demand higher nominal yields to protect long-term returns from being eroded. Ultimately, when yields spike due to fiscal risks rather than economic growth, the resulting increase in borrowing costs weakens global investor confidence in U.S. assets.
- The USD faces severe structural headwinds. As the Bank of Japan exits its ultra-loose monetary policy and other central banks turn hawkish, narrowing interest rate differentials are shrinking the yield gap, reducing the need for foreign capital to buy the greenback. This is compounded by accelerating global de-dollarization, with central banks selling U.S. Treasury to diversify directly into gold and alternative assets without converting funds back into USD. Furthermore, the U.S.'s severe "twin deficits"—fiscal and current account—put immense depreciation pressure on the currency if capital inflows falter. Because current yield spikes are driven by these inflation expectations rather than growth, inflation-adjusted real interest rates remain stagnant, removing any real incentive for foreign arbitrage.
- Investors should pay attention to the Jackson Hole Economic Symposium in Aug. In 9 out of the last 10 of the symposiums, the U.S. 10-year yield rose post-meeting. This occurs because the market chronically overprices "dovish" expectations beforehand, forcing the Fed to deliver hawkish, cooling remarks. The upcoming meeting marks the debut of the new Fed Chair, Kevin Warsh. Warsh aims to pivot toward less forward guidance and a purely data-driven approach to maintain policy flexibility. This approach would help maintain policy flexibility while preventing the Fed from being boxed in by market expectations. However, this shift increases policy uncertainty, likely intensifying short-term bond market volatility.
- For fixed-income portfolios, investors should actively mitigate interest rate risk by reducing duration and prioritizing short-term bonds. Simultaneously, expanding geographic diversification by allocating capital toward non-U.S bond—such as Chinese bonds. Since China's economic cycle and monetary policy are different from those of the US, Chinese bonds would help diversify.
- Within equities, rising risk-free rates increase discount rates, pressuring the high P/E stocks (including some techs) as high yields draw capital back into fixed income. Consequently, investors could consider to trim down overvalued assets and diversify into cash-rich companies with strong balance sheets—particularly high-dividend defensive sector such as utilities, and some financial stocks which would benefit from elevated rates. Ultimately, maintaining solid liquidity is essential, allowing investors to buy the dip when the market becomes volatile.

Full version is only available in Chinese language.

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