CIO Insights

Cusson Leung, Chief Investment Officer, International Wealth Management

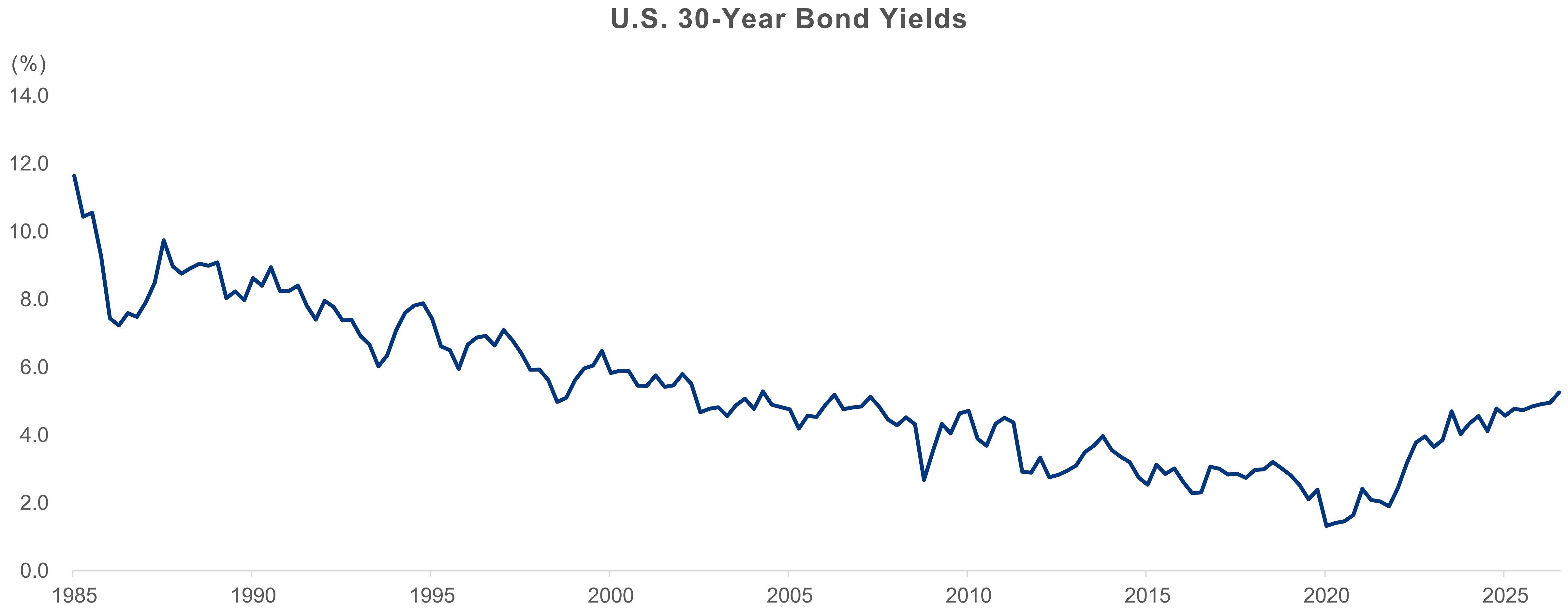
Friend or Foe – Hidden Risks of Short-to-Medium-Term Debt

What Are the Odds of Making Money in a Crowded Trade?

4 September 2026

U.S. 30Y Bond Yield at Its Highest Since 2005

Has It Priced In Debt Concerns, De-Dollarization, and a Potential Fed Rate Hike?

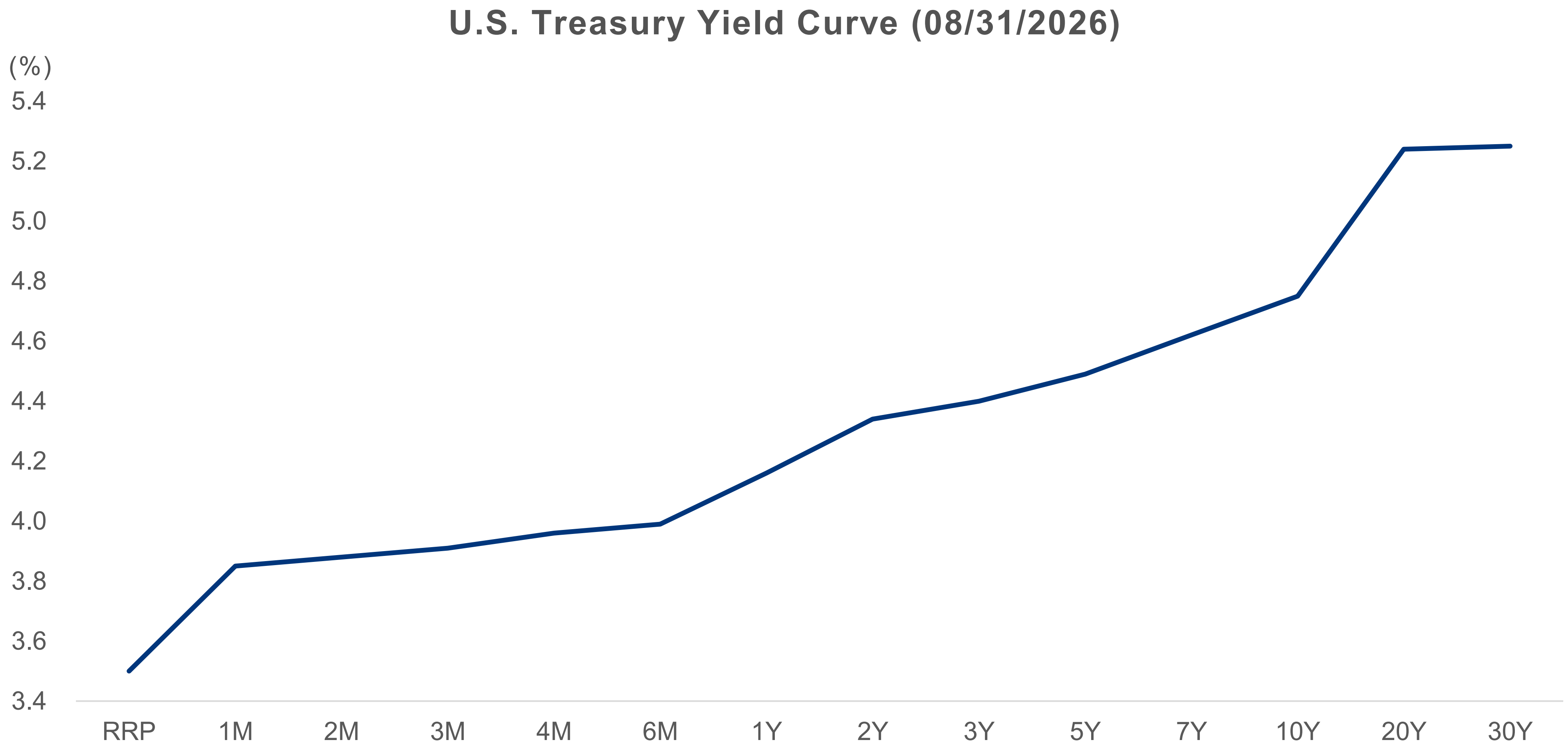


Source: Bloomberg, KGI

The Crowded Trade in the Fixed-Income Market

Avoid Long Duration; Focus on the 2-5 Year Segment of the Yield Curve

…the most popular trade is not necessarily the most appropriate one.



Source: Bloomberg, KGI

U.S. Treasury Long-Duration Buyback Program

The Perceived Safety of Short Duration Is Vulnerable to Surprises

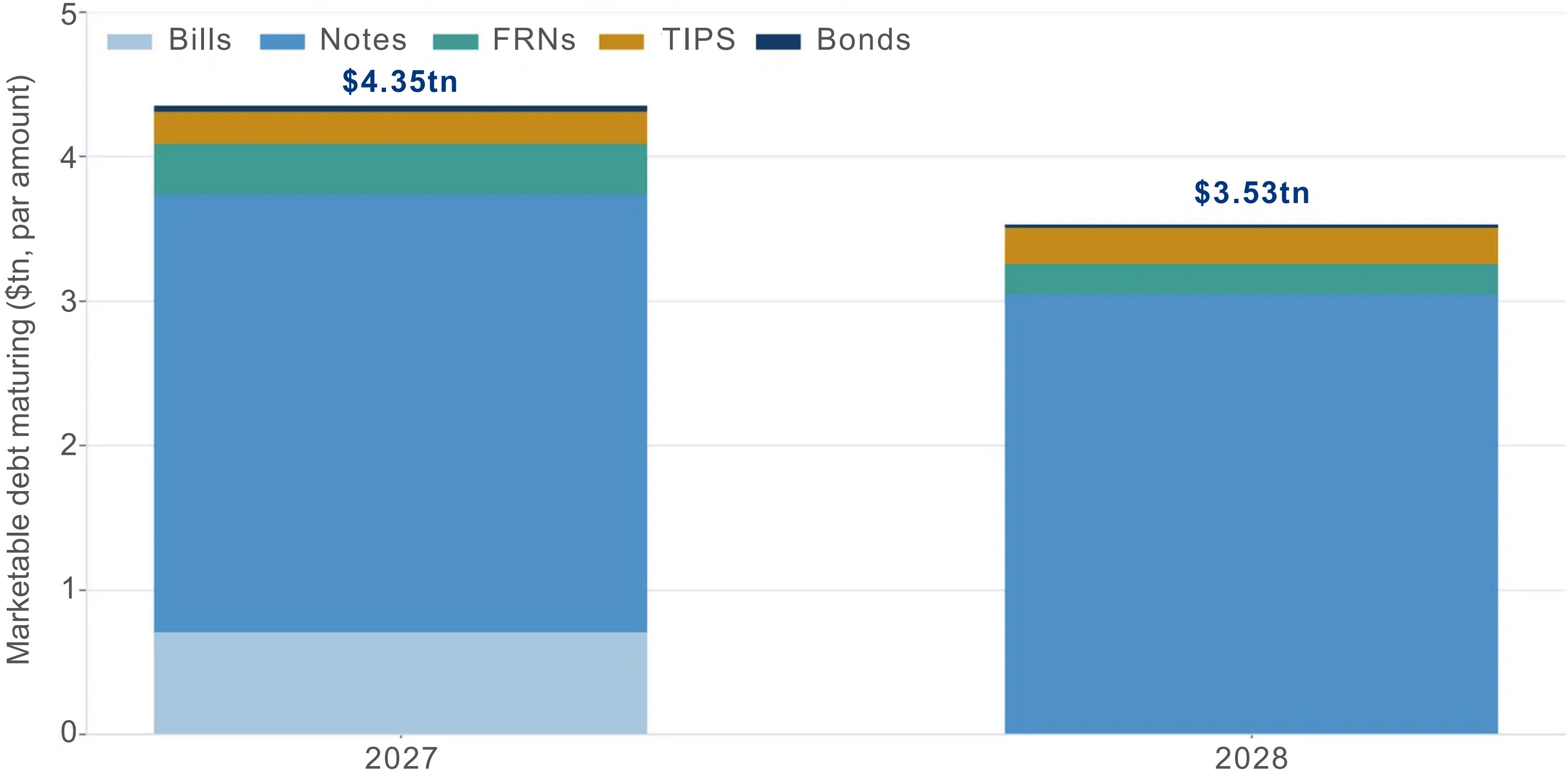
- From 9 September 2026, the maximum size for liquidity-support buybacks in the 10-20Y and 20-30Y nominal-coupon sectors increased from **$2bn to at least $4bn per operation.** The higher cap applies through 4 November 2026, the end of the current refunding quarter. This is one day after the U.S. midterm election.
- Despite being framed as a liquidity-management measure, it is generally **seen as a desperate move by the Treasury Department to contain rising long-duration yields** in the bond market. However, the more desperate the intervention appears to the market, the more likely it is to induce nervous selling by investors.
- **News coverage focuses on the risks associated with long-duration bonds.** We are not necessarily constructive on this segment. However, we believe the market has overlooked the vulnerability of the short- to medium-duration segment of the U.S. Treasury market.
- We believe that there is **considerable downside risk to short- to medium-duration bonds, driven by U.S. debt-refinancing requirements.**

Source: KGI

U.S.$7.9 Trn of Refinancing Needs in 2027-2028

77.1% of the Total Is Currently Funded by Short-Term Notes

The 2027-2028 Refinancing Wall is Note-Heavy



Marketable Principal Maturing

$7.88tn

2027-2028 | as of 31 Jul 2026

77.1% of the two-year maturity wall is in Treasury notes

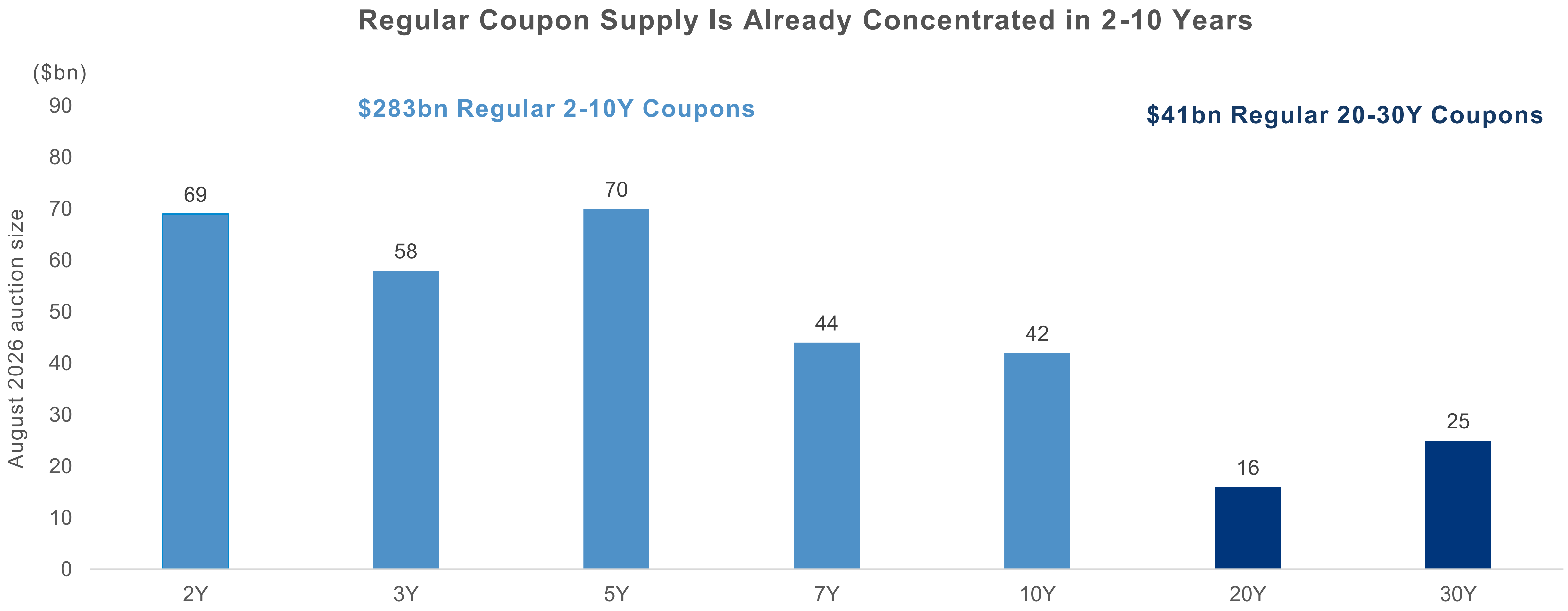
Why It Matters

Notes total **$6.08tn**, while bonds total only **$63bn**.

Source: U.S. Treasury, Monthly Statement of the Public Debt, Table 3; amounts as of 31 Jul 2026. Analyst aggregation; marketable securities only; KGI

Regular Nominal Coupon Supply Already Favors 2-10 Years

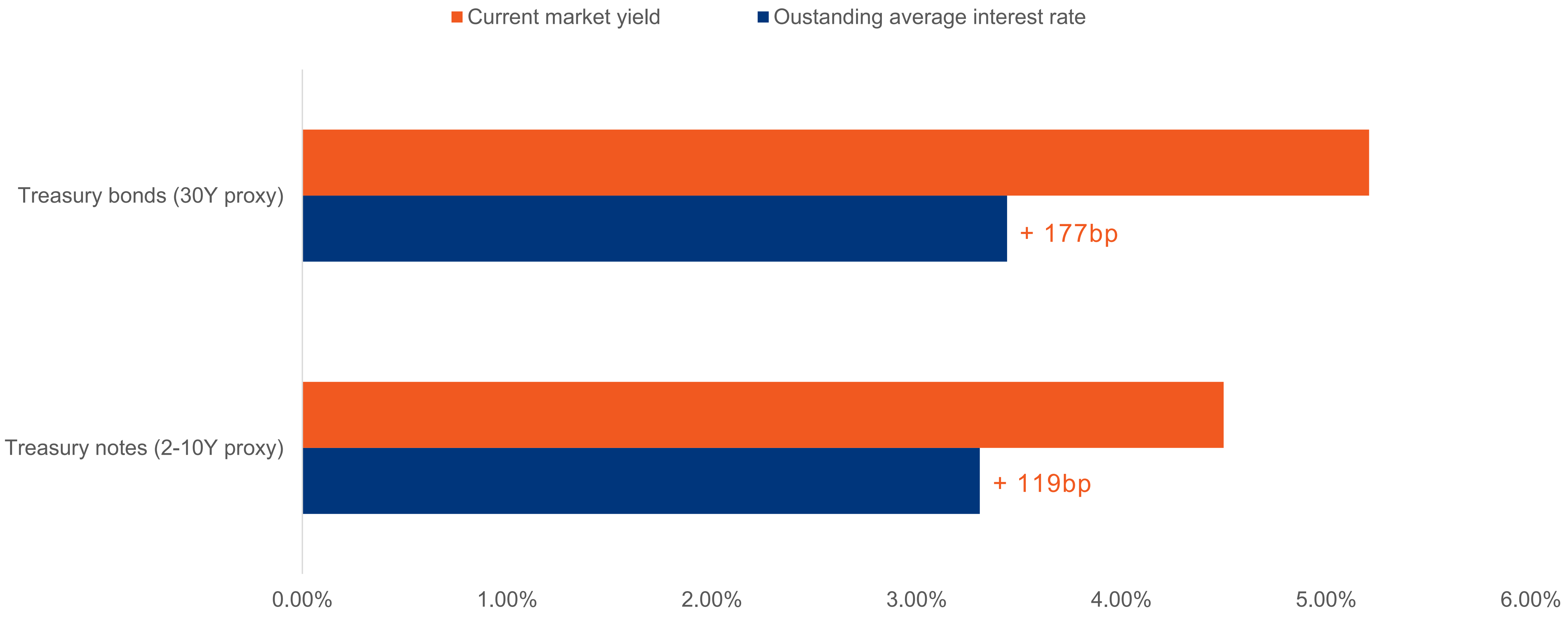
87% of August’s Issuance Was in the 2-10-Year Sector



Source: U.S. Treasury Quarterly Refunding Statement, 5 Aug 2026. Nominal coupon auction sizes for Aug 2026; excludes bills, FRNs and TIPS; KGI

Debt Refinancing Through 2-10Y Could Save 58bp in Costs

This Would Save US$46bn in Annual Interest Costs, Assuming 2027-2028 Maturities Are Refinanced



Source: Bloomberg, KGI

Bearish Flattening Is the Pressure Case – Not the Only Case

Supply Pressure on the 2-7Y Segment

Scenario	Observable Catalyst	Relative Sector Effect	Curve Shape
Intermediate-pressure case	2-10Y coupon supply rises; inflation stalls; policy stays restrictive.	2-10Y yields rise relatively more.	**Bearish flattening**, especially 5s30s.
Long-end stress case	10-30Y coupon issuance increases; fiscal term premium rises.	Long bonds underperform.	**Bearish steepening.**
Growth-break / bill-absorption case	Labour weakens and disinflation becomes credible, or funding is met through bills/CMBs.	The front end rallies; coupon pressure eases.	**Bull steepening** or a flatter supply impact.

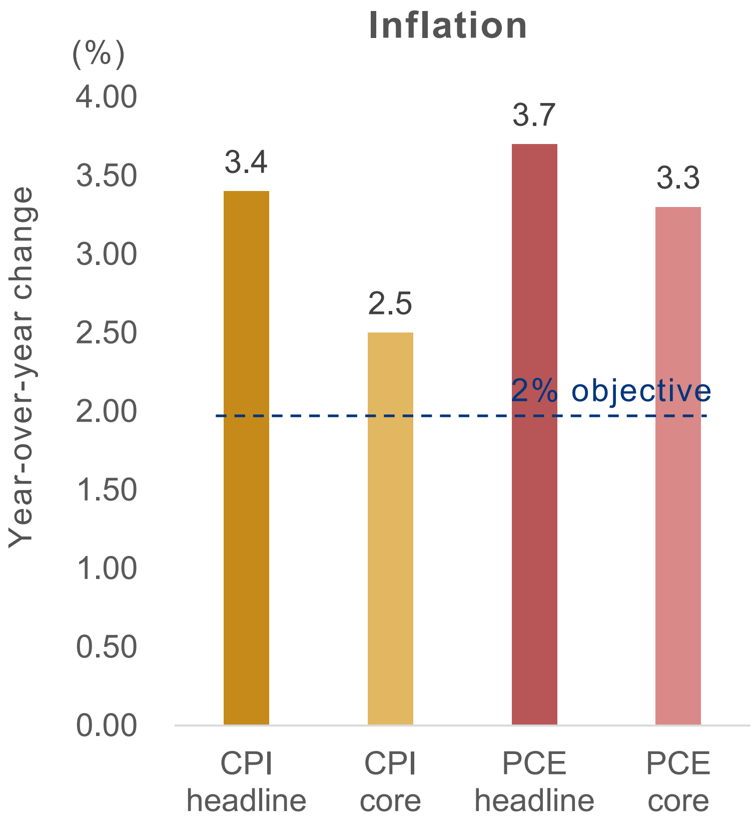
Source: KGI

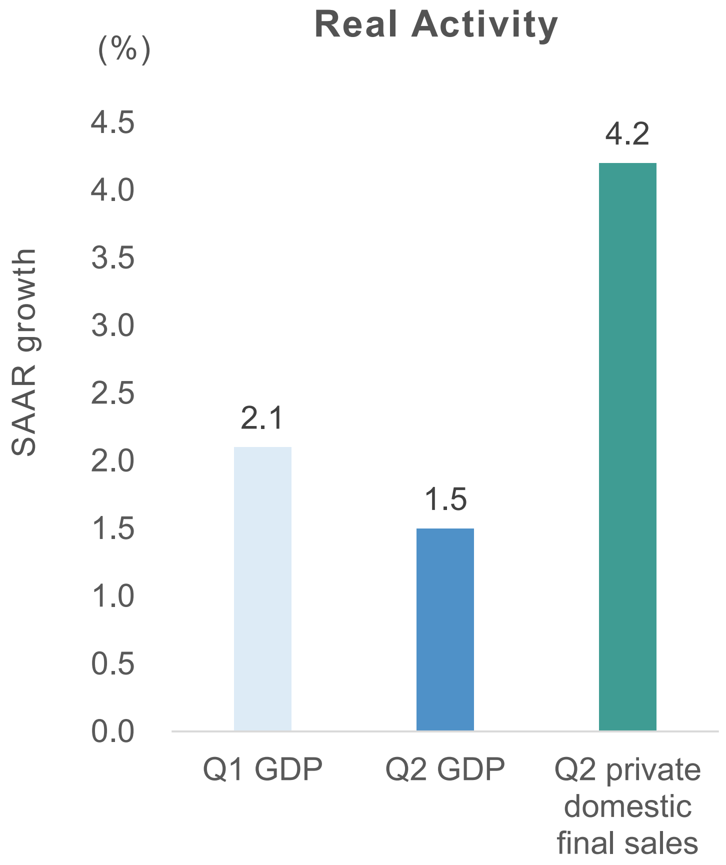
KGI

Is Warsh Really as Hawkish as He Sounds?

Trump Has Not Openly Criticized Warsh for His Hawkish Stance at Jackson Hole

Macro Releases Leave the Fed Balancing Elevated Inflation Against Uneven Growth





Intermediate-curve Transmission

1 | Inflation Progress Stalls

Data do not show credible convergence to the target.

2 | Expected Policy Path Reprices

2-5Y yields are most directly exposed.

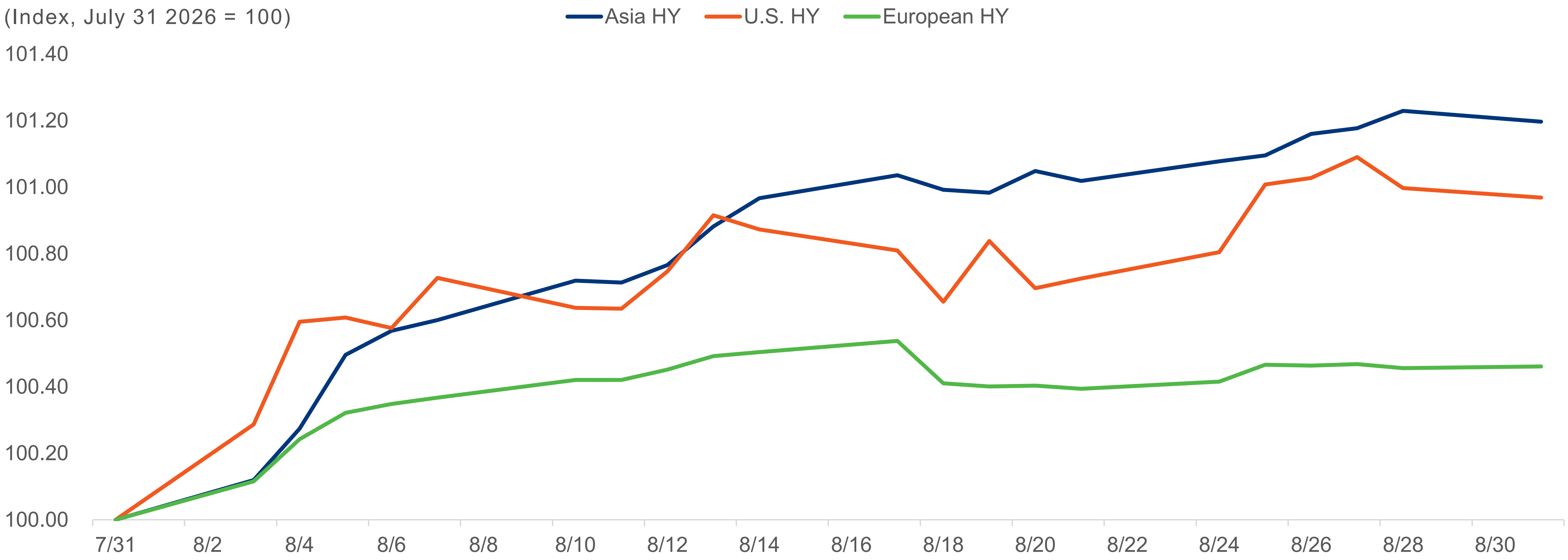
3 | Risk of 2-10Y Underperformance

Long-end response remains conditional on growth and term premium.

Sources: BLS July 2026 CPI; BEA July 2026 Personal Income and Outlays; BEA Q2 2026 GDP (second estimate); GDP and private domestic final sales are quarter-over-quarter annualized; inflation is YoY; KGI

Asian High Yield Outperformed

Despite Concerns About the U.S. Yield Curve



Source: Bloomberg, KGI

Investment Strategies

- **Roll over short-dated maturities to lock in relatively high yields at the long end.** Long-duration bond yields are not as high as in the 1990s, but inflation is expected to be more subdued than in the 1990s, as AI and automation will help improve production efficiency. A partial shift from the short end to the long end can also hedge against any surprise move by the Fed if it is less hawkish than the market expects.
- Given the Treasury Department’s long-end buybacks, new financing and their economic effects are absorbed disproportionately by 2-10Y issuance. We expect the greater absorption burden on the intermediate sector to lift 2-10Y yields relative to 20-30Y. The result is a bearish flattening of the yield curve. **We advise investors to gain exposure through a 5s30s outperformance note.**
- Beyond the U.S.-centric fixed-income universe, we believe there will be a general flight to safety, and Asian credit is benefiting from this trend. Among Asian opportunities, we note that **Asian high yield has significantly outperformed its U.S. and European counterparts, as capital flows view Asia as a temporary safe haven.**

Source: KGI

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