CAP Focus

Cross Asset Allocation

13 August 2026

Long-term yields: up or down? (pp.3-4)

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Equity Market Themes, Performance & CAP Weightings (p.5)

A typical Danish 60/40 portfolio rose by 1.4% over the past month. CAP's underweight position in US equities proved detrimental over the one-month period; however, over the past three months, our overweight positions outperformed, with the exception of Danish equities. Among our overweight positions, Low Volatility and Value equities, as well as European equities, all delivered positive performance relative to the 60/40 portfolio. The asset groups within the fixed-income asset class have generally performed poorly over the past three months as a result of rising yields (see the Market Theme article). The same applies to our overweight allocation to hedge assets, before risk adjustment. Emerging-market equities have been the weakest-performing segment in recent months. It is noteworthy that growth equities have underperformed other developed-market segments, such as value, even as US equities have performed well.

Return Charts 12 mth: Cross-Asset Group & Theme Performance (pp.6-10)

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Market Theme. In Brief

Long-term yields: up or down?

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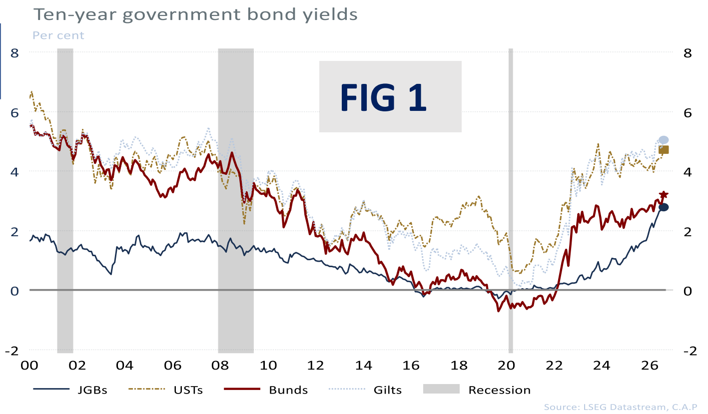
Long-term yields have been rising in 2026 (**FIG 1**), and one of the key questions currently being asked by investors is whether the next major move in long-term yields—both in the US and Europe—will be higher or lower. Below, we set out our perspective.

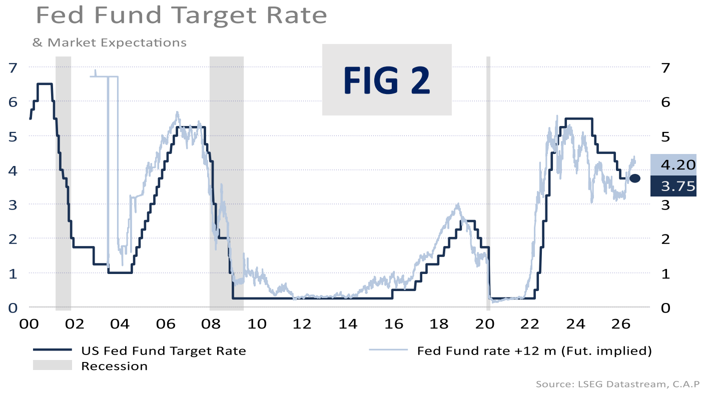
US yields since 2022
Looking at the US 10-year benchmark yield, it had already reached its current level in 2023. This was the average level prevailing in the decade before the 2008 financial crisis, meaning that it took less than 15 months to re-establish the interest-rate regime of the 2000s—an era brought to an abrupt end by the deflationary environment of the 2010s. The adjustment began after the end of the Covid crisis, with annual US core CPI inflation running at as much as 6.5%. In 2022, the Federal Reserve began tightening monetary policy, taking the Fed funds target rate from 0.25% in May 2022 to 5.5% in July 2023 (**FIG 2**). This unexpectedly sharp tightening triggered significant corrections in global equity and bond markets.
Since then, equity markets have, as is well known, recovered. Inflation began to decline materially in the second half of 2023, and the Fed cautiously reduced the Fed funds target rate from September 2024 to December 2025, bringing it to 3.75%—the current level. Over this period, the 10-year yield has remained “higher for longer”, trading within a range of 3.9% to 4.9% p.a. (**FIG 1**).

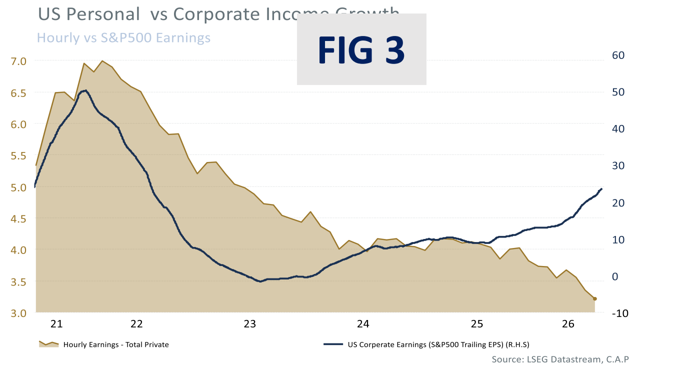
Global yields have risen
Since 2022, global government bond yields have broadly followed the trend set in the US. Long-term yields in Denmark and the euro area, as well as in the UK, are all close to the levels seen around the time of the financial crisis. In 2026, long-term yields in most markets have risen by between 0.5 and 0.75 percentage points. The ECB and the Bank of Japan have reinforced this trend with 25 basis-point rate increases in June 2026. The Fed and the Bank of England have so far left rates unchanged. Bond markets are now being pressured, among other factors, by the renewed inflation shock resulting from higher energy prices following the US attack on Iran in February. There is also growing focus on the yield-driving effects of very large fiscal deficits, particularly in the US and Japan. That said, the most important signal capital markets are awaiting regarding the future direction of interest rates is likely to come from the Fed.

The Fed is expected to raise rates
Current expectations are that the Fed will follow the ECB’s and Bank of Japan’s lead by raising the US policy rate by 50 basis points over the coming year (**FIG 2**). With a new round of energy-price increases and higher tariffs, core PCE inflation is unlikely to fall below the Fed’s 2% annual target in the near term.
At the same time, an AI investment boom is underway, increasing private-sector indebtedness and potentially creating a bubble if credit conditions are not kept relatively tight.

Jobs data highlight the K-shaped economy
Against this backdrop, the July US employment report is particularly noteworthy. Non-farm employment declined by 23,000, marking the second month of negative employment growth this year, following February. The figure implies that, on a net basis, approximately 600,000 jobs have been created over the past 12 months—around one-third of the annual average during the 2010s.
AI is partly being blamed, but the reality is that the current US upturn is being driven by investment in labour-light sectors. At the same time, household purchasing power is declining, partly as a result of the relatively weak labour market. **FIG 3** illustrates what has been termed the “K-shaped economy”.
On the one hand, US companies are experiencing robust earnings growth of approximately 20% on average. On the other, households are seeing slower growth in wage income, currently running at 3.2%. The Fed’s dilemma is that, if it does not respond with rate cuts in time, the risk of an employment-led consumer recession will increase materially.







Market Theme. In Brief

Long-term yields: up or down?

Expected rate rises are being met with remarkable calm on Wall Street

It is difficult to see any meaningful impact of expected Fed rate increases on the equity market. That said, certain industries and sectors naturally benefit from relatively high interest rates. Financials are one such area, with banks benefiting, among other factors, from positively sloped yield curves.
Nevertheless, attention naturally remains focused on the major US technology stocks, where investors have largely ignored the higher funding costs seen in 2026 (see also: https://c-a-p.dk/cap-focus-allocation-in-equities-aug-7-2026/). One of the clearest indications that the equity market is paying little attention to either interest rates or the challenging geopolitical backdrop can be seen in **FIG 4**. It shows what is sometimes referred to as the “fear index”—more precisely, the index of implied volatility at which S&P 500 options are traded. As shown, the index is currently close to 15, its lowest level in seven months.
It is also noteworthy that a comparable measure of volatility in the US Treasury market—the MOVE Index—has declined over the past month. In other words, there is no visible concern about rising US interest rates. When the VIX Index remains subdued and signals “blue skies”, one explanation is that bond investors are also calm and do not fear higher yields. **FIG 5** offers one explanation as to why.

Inflation expectations are above 2%, but stable

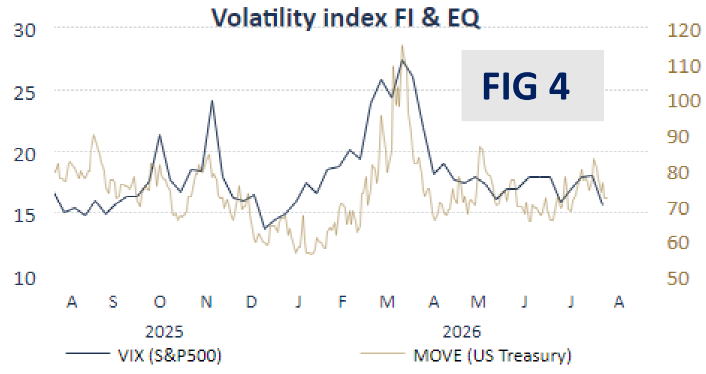
FIG 5 presents a selection of measures of expected future inflation. As can be seen, expectations for inflation over the next five years have generally risen from around 1.85% during the 2010s to approximately 2.35% today. This alone provides a reason why bond yields should be higher than they were during the low-rate decade of 2010–2020. At the same time, inflation expectations across most indicators remain highly stable. In other words, there is no fear that the Fed will be forced to tighten monetary policy aggressively in response to runaway inflation. The conclusion is therefore that calm in the bond market may partly explain the stability of the US equity market.

Inflation concerns may constrain balanced portfolios

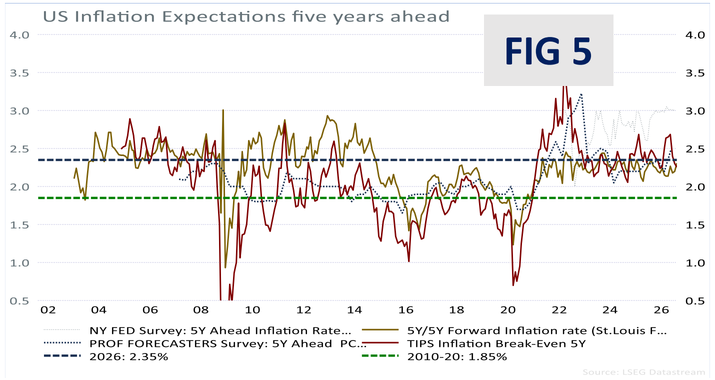
CAP continues to expect fixed-income assets to make a positive contribution to a balanced portfolio (see **p. 5**). This should occur when conditions in global equity markets normalise and the appetite for risk is again reflected in regular market corrections. For now, however, the timing of when long-dated bonds will again become attractive investments is difficult to assess. One way of monitoring this is illustrated in **FIG 6** , which shows the return correlation between long-dated US bonds and the S&P 500 from 1970 onwards. When the correlation is positive, as it has been since 2022, it indicates that inflation is the key issue for both equities and bonds. In such periods, the Fed and other central banks focus on controlling inflation as the primary objective of monetary policy. Conversely, when the correlation is negative, as it was from 2000 to 2020, bonds contribute positively to long-term returns by cushioning the negative shocks arising during difficult periods for equity markets. During these periods, central banks focus on the economic growth cycle and cut rates in response to weak labour markets.

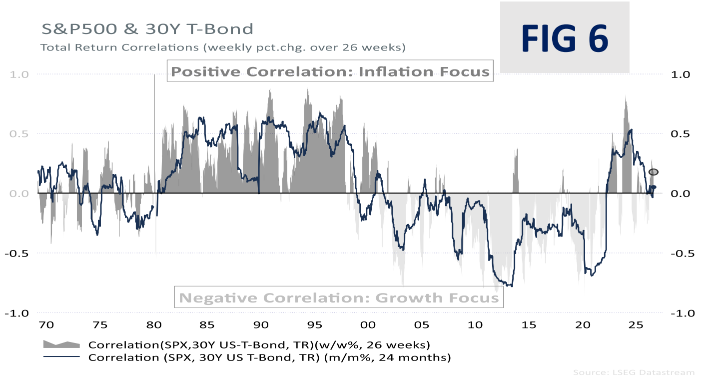
Our recommendation

In the second half of 2026, the Fed and other central banks are primarily focused on inflation and the implications for consumer prices of, among other factors, the Trump administration’s policies on energy and commodity prices, tariffs, the AI investment boom, and substantial fiscal stimulus. Inflation data over the coming months are expected to be decisive for the direction of monetary policy and interest rates. Based on inflation readings above 3%, CAP expects the Fed to implement a single 25 basis-point rate increase in the coming months. However, it is clear that the Fed and other western central banks will become concerned about labour-market conditions if the US economy enters a new phase in which a serious deterioration in employment materially weakens the economy. Recent signals from employment reports are, in this respect, somewhat concerning. Whether yields will move higher or lower in the coming months therefore remains highly uncertain. For CAP’s recommendations, this means that our Hedge portfolio continues to consist primarily of short-duration bonds, while we maintain a neutral position in long-dated bonds and duration. Further increases in yields cannot be ruled out. ❑



Source: LSEG Datastream, C.A.P



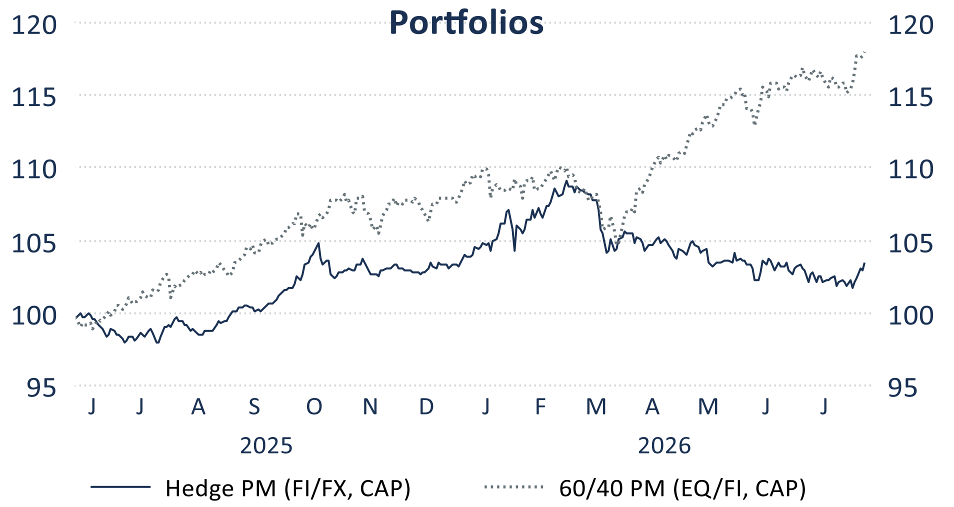


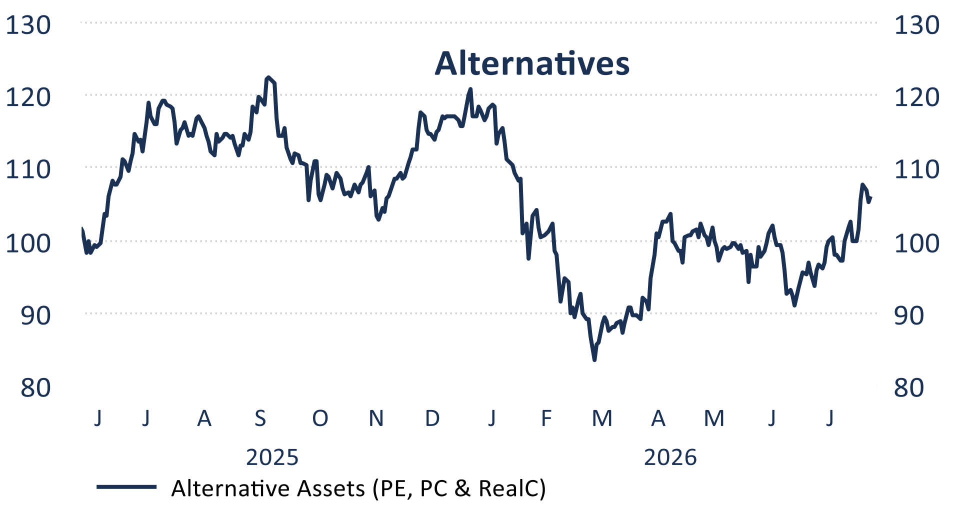
Market Themes, Performance & CAP weightings

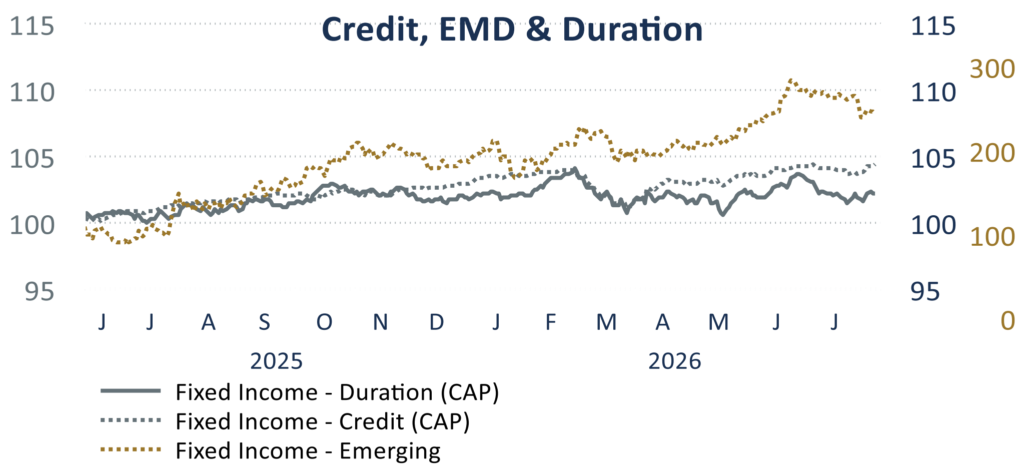
Investment Styles & Themes	-1w	-1m	-3m	YTD	-12m	CAP Position
USA (EQ, USD)	3.6%	3.4%	6.0%	14.1%	23.8%	Underweight
Size (EQ, CAP)	2.6%	2.5%	7.6%	14.9%	23.4%	Underweight
MSCI World Equal Weight (EUR)	2.3%	2.4%	8.0%	14.5%	19.4%	Overweight
Globale Aktier (EUR)	2.9%	2.4%	8.1%	16.1%	24.9%	Underweight
USA (EQ, EUR)	3.2%	2.4%	8.1%	16.0%	24.6%	
Europe (EQ, EUR)	1.8%	2.3%	8.1%	14.3%	24.7%	Overweight
Low Vol (EQ, CAP)	2.1%	2.1%	7.8%	9.6%	11.9%	Overweight
Value (EQ, CAP)	2.3%	2.1%	13.1%	38.1%	61.7%	Overweight
LT Growth (EQ, CAP)	4.0%	1.5%	6.2%	13.7%	22.2%	Underweight
60/40 (EQ & FI(DK), CAP)	**1.9%**	**1.4%**	**5.1%**	**9.6%**	**15.7%**	
Hedge (FI/FX, CAP)	1.7%	0.5%	-1.3%	0.1%	4.1%	Overweight
HY Credit (Global)	0.5%	0.0%	0.5%	1.1%	2.9%	Neutral
Danske Aktier	0.5%	0.0%	6.3%	6.3%	14.1%	Overweight
Credit (CAP)	0.5%	0.0%	1.0%	1.3%	2.9%	Neutral
IG Credit (Euroz)	0.4%	-0.3%	0.5%	0.8%	1.3%	Overweight
Duration (FI, CAP)	0.6%	-0.5%	0.2%	0.3%	0.9%	Neutral
US Dollar	-0.3%	-1.3%	1.4%	1.6%	0.9%	Underweight
EMD	0.24%	-1.4%	2.3%	3.3%	6.9%	Neutral
Emerging Markets (EUR) (EQ)	-0.8%	-2.6%	-1.2%	21.7%	35.3%	Neutral

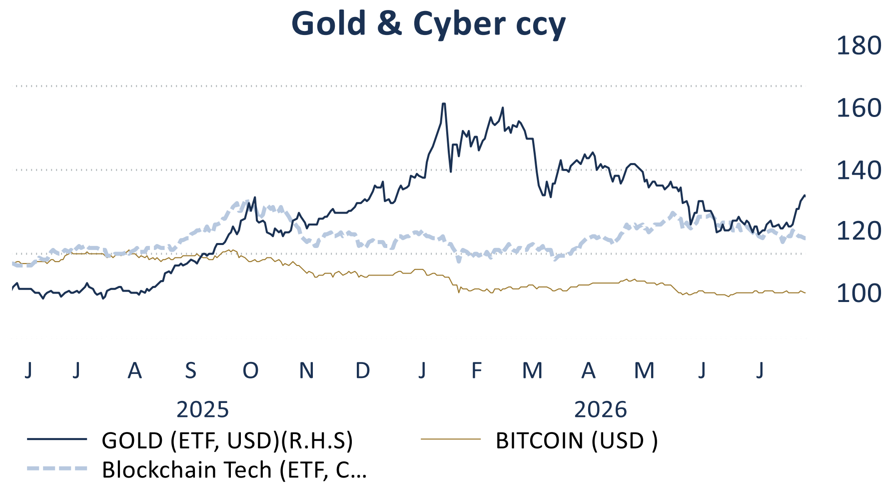
Investment Segments – 12 mth. Total Return

Cross Assets. Portfolios & Segments





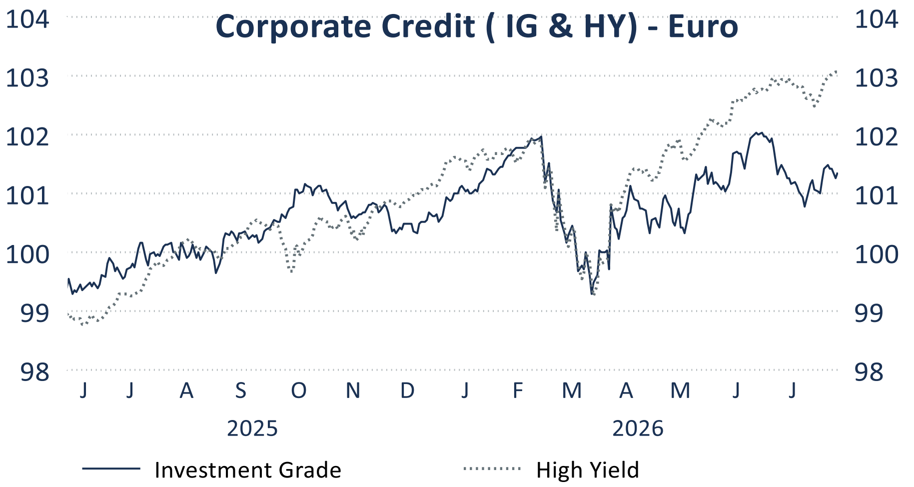


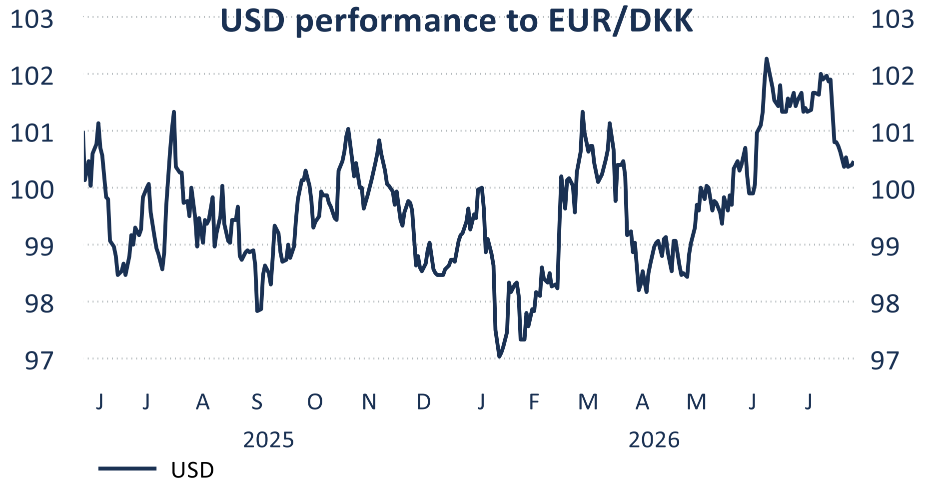


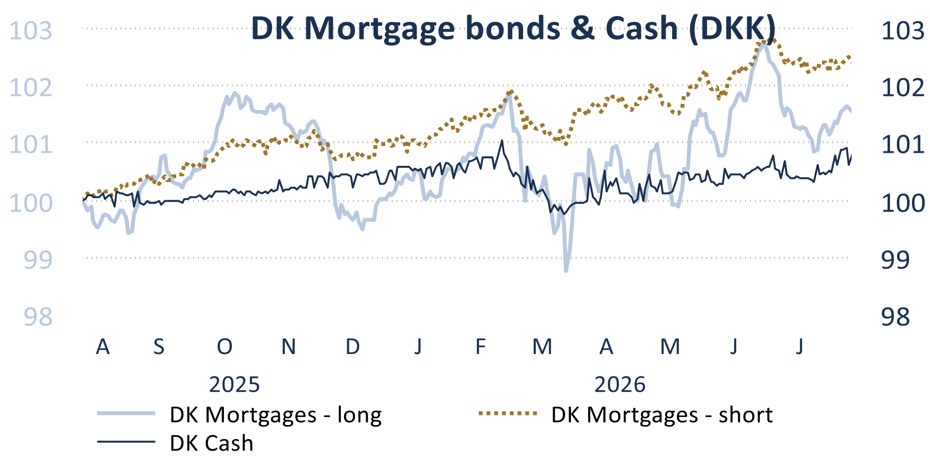
Source: LSEG Datastream, C.A.P

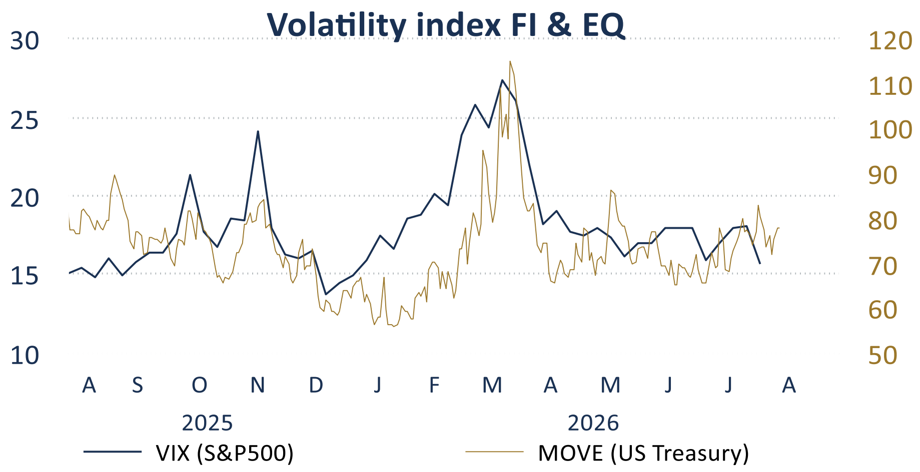
Credit, USD & Vol – 12 mth. Total Return & Performance

Cross Assets. Credit, Mortgages, USD and Vol









Source: LSEG Datastream, C.A.P

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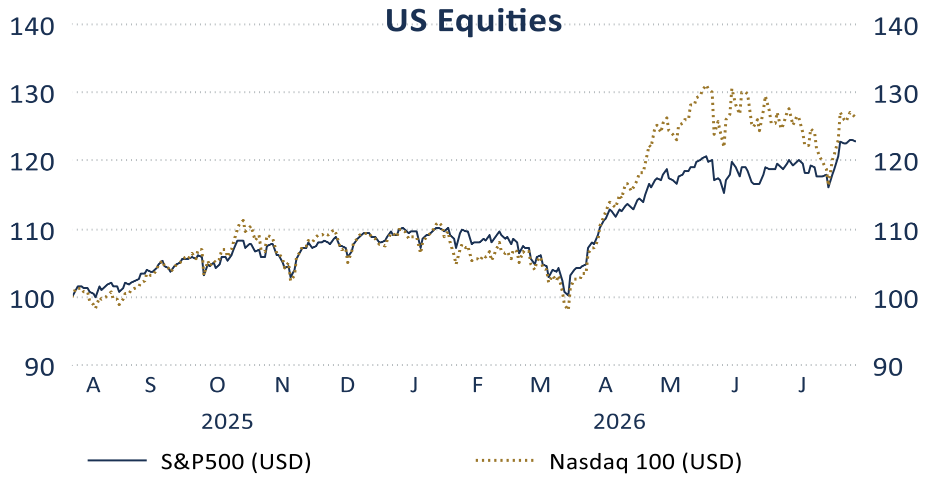
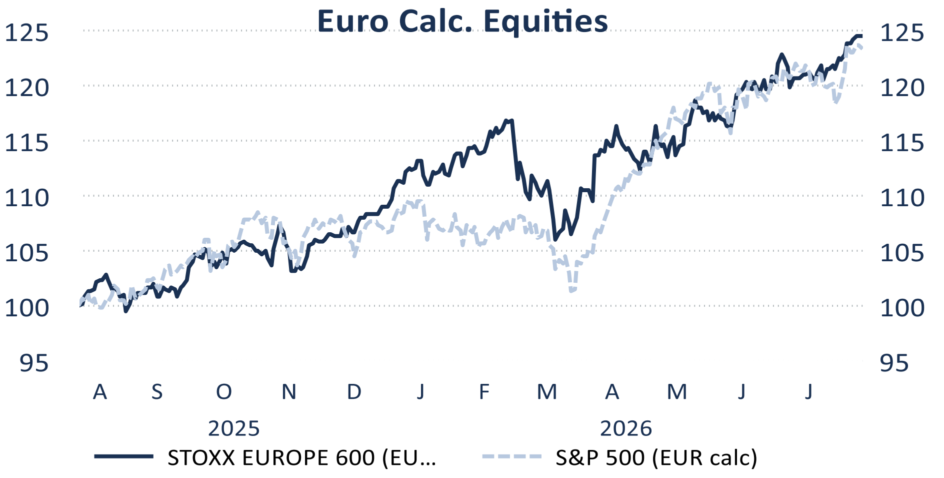
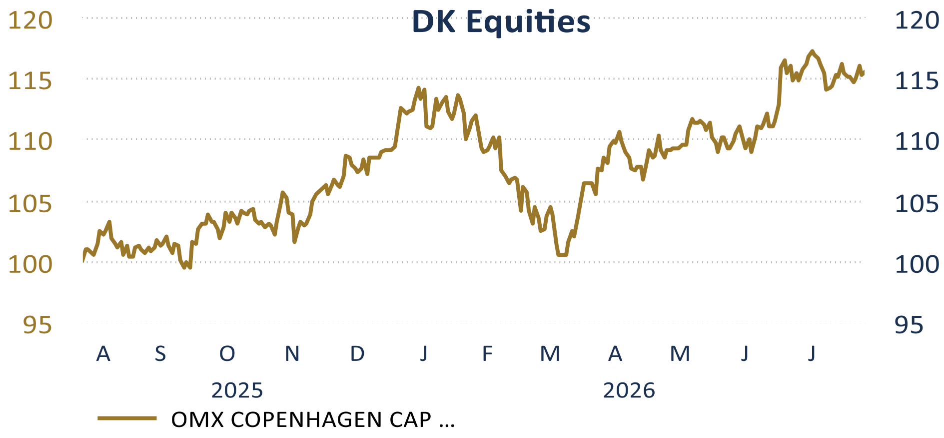
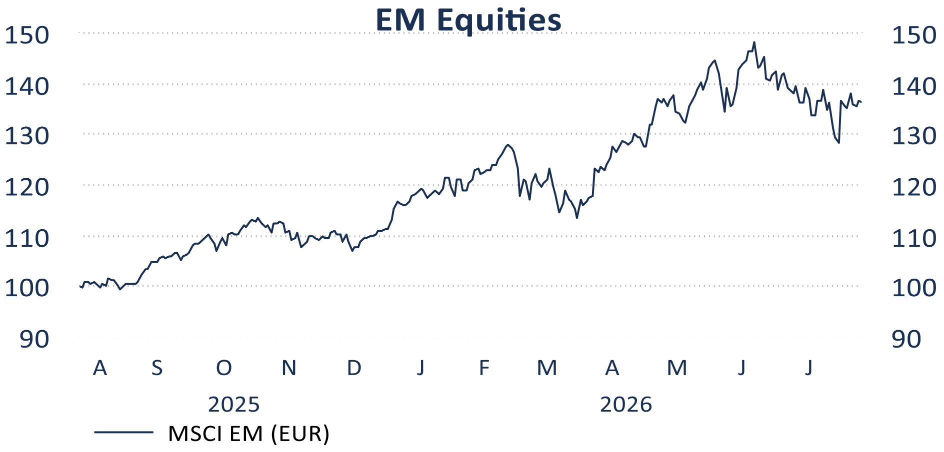
Equity Markets – 12 mth. Total Return

Cross Assets. Equity Markets









Source: LSEG Datastream, C.A.P

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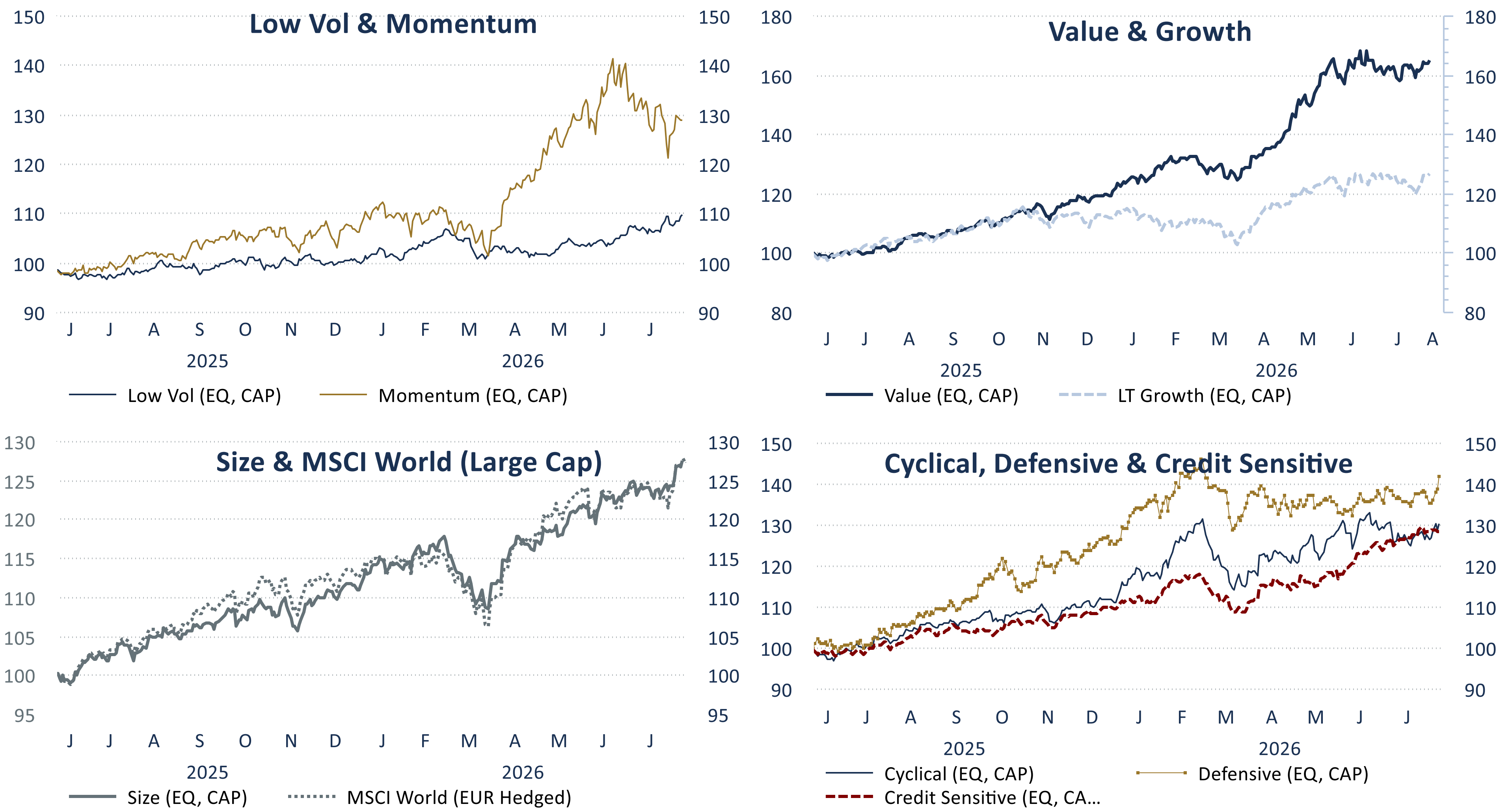
Equity Investment Styles – 12 mht. Total Return

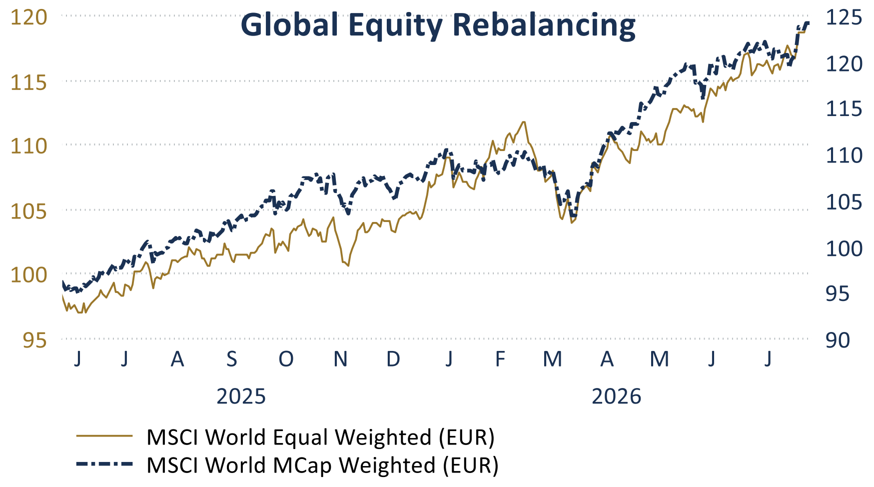
Equities. Style & Macro Factors



Source: LSEG Datastream, C.A.P

Equity Investment Styles – 12 mht. Total Return - 2 -

Equities. Style & Macro Factors



Source: LSEG Datastream, C.A.P

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