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The Savings Glut in Reverse: Real Yields, Captive Buyers, and the Unwinding of Global Reserve Recycling

Why the 2026 Global Bond Selloff Is a Balance-Sheet Story, Not an Inflation Story

Best read alongside “Mercantilism Revisited: China, the Dollar, and the Renminbi’s Missing Appreciation” (September 2026)

September 2026

Executive Summary

Global bond yields have backed up sharply through 2026, but the move has been driven almost entirely by real yields, not by inflation expectations. US 10-year breakeven inflation sits around 2.3% — actually below levels seen before the recent Middle East-driven energy shock — while real yields have climbed to roughly a seventeen-year high.¹

This decomposition matters. A rise in real yields with stable breakevens means the market is not repricing the risk of future inflation surprises — it is demanding more real compensation to hold duration at all. There are two candidate explanations: a genuinely higher equilibrium real return on capital, associated with the ongoing AI capital-expenditure cycle; or a rising term premium caused by a shrinking pool of price-insensitive official buyers of government duration. We set the first aside deliberately — it rests on an unresolved and genuinely contested debate about whether current AI capex is justified by fundamentals, and the argument that follows does not require that debate to be settled.

The second explanation is where the evidence points, and it already has a name: it is Bernanke’s “global saving glut” thesis, unwinding. For two decades, mercantilist surplus economies — China and Japan chief among them — recycled extraordinary, price-insensitive volumes of savings into developed-market government duration, specifically because they needed dollar assets to resist domestic currency appreciation. As that recycling genuinely eases, the captive buyer retreats, and the yield needed to attract a price-sensitive replacement is a real yield, not a breakeven.

The evidence for this is now unusually direct. Price-insensitive investors held an estimated 76% of outstanding US Treasury bonds nineteen years ago; today that figure is roughly 43%,

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and the mechanism has already been tested once — during the Federal Reserve’s 2022–2025 balance-sheet reduction, the price-sensitive investor share rose 17 percentage points while the term premium rose 1.1 percentage points. China is one of only two major sovereigns whose own 10-year yield has not risen over the trailing twelve months, with its real yield falling roughly 1.6 percentage points while most of the rest of the world’s has risen. Japan’s central bank is retreating from its own government bond purchases for separate reasons. And the sitting Federal Reserve chair has stated his own ambition to shrink the Fed’s balance sheet further — a third, entirely domestic instance of the same mechanism, layered on top of the other two.

1. The Puzzle: Real Yields Are Doing the Work

A nominal government bond yield is, to a close approximation, the sum of two components: a real yield and a breakeven inflation rate, the latter representing the market’s expectation of future inflation plus a small inflation-risk premium. When a nominal yield rises, the source of that rise matters enormously for interpretation.

As of early September 2026, US 10-year breakeven inflation is holding around 2.3% — lower, in fact, than it was before the escalation of the Iran conflict earlier in the year — while the real yield on 10-year Treasuries has climbed to its highest level in roughly seventeen years.² If breakevens are not moving, the bond market is not worried about being surprised by future inflation. It is demanding more real compensation to hold duration at all, independent of the inflation outlook. The 30-year Treasury yield tells the same story from the long end: it touched 5.35% in 2026, a nineteen-year high, with the move concentrated specifically in long-dated debt rather than spread evenly across the curve — exactly where a term-premium story, rather than a near-term inflation story, would show up first.²

2. Two Candidate Explanations

A rise in the real yield, holding breakevens constant, points to one of two very different stories.

The “good” story: a higher equilibrium real return on capital. If markets believe real growth and productive investment opportunities have genuinely improved, the equilibrium real rate needed to balance savings and investment (r^*) rises mechanically. The obvious 2026 candidate is the AI capital-expenditure cycle: four US hyperscalers alone are guiding to roughly \$725 billion of capex in 2026, up sharply from the prior year.

The “structural” story: a rising term premium from a shrinking pool of price-insensitive buyers. Investors need more compensation for holding duration when the bond market has to absorb the same supply with less captive, non-price-sensitive demand — buyers who were never there for the yield in the first place, only for policy reasons.

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We deliberately set the first explanation aside. Independent trackers of the AI capex cycle estimate that direct AI-related revenue across the ecosystem covers somewhere between roughly 0.15x and 0.25x of AI-specific capital expenditure in 2026³ — a genuinely disputed figure that depends heavily on how “AI revenue” is defined, and one on which serious, informed people disagree in both directions. The argument that follows does not require that debate to be resolved either way; it rests entirely on the second, balance-sheet explanation, which can be evaluated independently.

3. The Stock-Flow-Consistent Mechanism

The structural explanation can be stated precisely in stock-flow-consistent terms.⁴ In a monetary economy, every financial liability outstanding must be held by someone. When a price-insensitive holder — a central bank accumulating reserve assets for currency-management reasons rather than for return — steps back from accumulating government debt, the marginal buyer becomes a price-sensitive one: a commercial bank, a pension fund, a private asset manager. Price-sensitive buyers care about real purchasing power and duration risk in a way official reserve managers, by construction, do not.

Holding fiscal deficits constant, replacing a captive buyer with a price-sensitive one requires the real yield to rise far enough to clear the same volume of issuance — and that adjustment runs entirely through the real component of the yield. It requires no change whatsoever in inflation expectations.

Shrinking official-sector duration demand + persistent fiscal deficits $\Rightarrow$ real yields rise to clear issuance, independent of inflation

This is not merely theoretical for the US Treasury market itself. Nineteen years ago, price-insensitive investors — central banks and other reserve managers buying more or less reflexively according to stable reserve-management policies — held an estimated 76% of outstanding US Treasury bonds; today that share has fallen to around 43%.⁵ The majority of the market is now held by price-sensitive investors — households and investment funds — who demand greater compensation as government debt grows and inflation erodes purchasing power.

Usefully, the mechanism has already been tested once, giving something close to a natural experiment. During the Federal Reserve’s 2022–2025 balance-sheet reduction, the price-sensitive investor share of Treasury holdings rose by roughly 17 percentage points, while the term premium — the extra compensation investors demand to hold long-term debt — rose by approximately 1.1 percentage points over the same period.⁵ That is a measured, before-and-after link between the composition of the buyer base and the yield the market demands, independent of anyone’s inflation forecast.

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4. Bernanke's Global Savings Glut, Running in Reverse

This is, in effect, Bernanke's "global saving glut" thesis⁶ running in reverse. In 2005, Bernanke argued that large US current-account deficits and unusually low long-term interest rates were substantially explained by an excess of desired saving over desired investment in China, developing Asia and the oil-exporting states — the same

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identity that underlies our companion note on China's exchange-rate policy. Surplus economies generated more savings than they could productively invest domestically; those savings were exported and, to prevent the resulting foreign-exchange proceeds from appreciating their own currencies, were recycled overwhelmingly into safe, liquid, developed-market duration — above all, US Treasuries. That recycling was widely credited with holding global, and particularly US, real yields structurally low for two decades, independent of the growth or inflation outlook at any given time.

The retreat from that recycling role is not confined to China. Japan's own share of the foreign-held US Treasury market has fallen from around 18% in 2004 to roughly 4% today, purely as a function of slowing reserve accumulation⁵ — a decline of similar scale to China's, though driven by somewhat different considerations. Geopolitics has added a further, complementary driver specific to China: the growth of US financial sanctions and the broader "weaponisation" of the dollar have raised the perceived risk of dependence on dollar-denominated reserve assets, encouraging official reserve managers — China prominent among them — to diversify into gold at pace.⁵ This is a second, reinforcing reason for reduced official Treasury demand, additional to — not competing with — the currency-management explanation examined in Section 5.

If China's currency management is genuinely easing — RMB permitted to appreciate rather than resisted — the entire recycling chain runs in reverse: less need to resist appreciation implies less need to intervene, which implies less need to accumulate foreign-currency reserves, which implies a shrinking pool of official-sector, price-insensitive demand for US Treasuries specifically. Layer the Japanese and geopolitical drivers on top, and the shrinkage in captive demand is broader and more overdetermined than a China-only story would suggest.

5. The China Evidence

That signature shows up with unusual clarity in China's own bond market. Over the twelve months to the end of March 2026, China was one of only two major sovereigns — alongside Switzerland — whose 10-year government bond yield did not rise, at a time when yields rose in nearly every other major market. Real yields (yield minus inflation) rose in nine of ten major economies tracked over that period; China was the exception, with its real yield falling by roughly 1.6 percentage points.⁷

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This divergence is worth dwelling on. The economy that spent two decades suppressing global yields through reserve accumulation is, for the first time in years, moving independently of — indeed opposite to — the rest of the world, at precisely the moment its own currency policy is genuinely changing. That is consistent with China itself being a meaningful part of the explanation for why everyone else's real yields are rising: the same actor, moving in the opposite direction to its usual role.

6. The Dalio Lens: A Bond Is a Promise to Deliver Currency

Ray Dalio's recurring framing of government debt is useful here.⁸ A long-dated bond is fundamentally a promise to deliver a fixed stream of currency over time, so the longer the duration, the more of the bond's realised return depends on what that currency turns out to be worth on delivery, rather than on the coupon itself. Duration is not simply interest-rate risk in the textbook sense — it is an amplifier on currency risk.

The mechanism cuts both ways. If a currency is expected to depreciate, bondholders need a higher coupon to compensate for the expected loss on conversion back to their own currency — this is why classic emerging-market local-currency debt trades at a persistent yield premium over hard-currency alternatives. The mirror image holds too: if a currency is expected to appreciate, investors are willing to accept a lower yield, because part of their expected return is coming from the currency itself rather than the coupon. Falling yields alongside a strengthening currency are not, under this framework, a contradiction to be explained away — they are the predicted outcome of a market that believes the appreciation continues.

7. RMB and Chinese Yields: The Data

The data lines up with the framework. Since the start of 2026, USD/CNY has moved from 6.9937 to 6.7065 — a fall of around 4.1% in the quoted rate, equivalent to RMB appreciation of roughly 4.3%. Over the same period, China's 10-year government bond yield has fallen from 1.86% to 1.68%, eighteen basis points lower, rather than rising to compensate holders for currency risk.

This is worth caveating rather than overstating. China's bond market is not a clean market signal in the way US Treasuries are: capital controls restrict who can express a view on Chinese rates or the currency at all, domestic banks are largely captive buyers of government debt, and the People's Bank of China leans on yields directly. We read this combination as corroborating the broader thesis — the market is not pricing RMB weakness, and is not demanding a currency-risk premium from Chinese duration — rather than as standalone proof of anything.

8. The Second Leg: Japan and the BOJ

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China is not the only captive buyer retreating from developed-market government duration in 2026. The Bank of Japan has been on a genuine tightening path through the year, and has been reducing its own purchases of Japanese government bonds — a retreat from the price-insensitive, policy-motivated buying that has underpinned the JGB market for over a decade.

The mechanism is exactly the one described in Section 3, applied domestically within Japan's own bond market rather than to a foreign holder of US Treasuries: as the central bank steps back, the government must rely more on price-sensitive private buyers to absorb the same issuance, and those buyers require a higher real yield to do so. This is a second, independent leg of the same underlying story — major captive buyers of developed-market government duration retreating from that role in the same year, for different reasons, with the same real-yield-raising effect.

9. A Third Leg: The Federal Reserve's Own Retreat

The mechanism described above has a third instance, entirely domestic to the United States, and it may prove the most consequential of all. Kevin Warsh, confirmed as Federal Reserve Chair in May 2026, has stated his own ambition to further reduce the size of the Fed's securities holdings.⁵ Should he proceed, this would extend the same price-insensitive-to-price-sensitive substitution to the single largest holder of Treasury debt in the world — the Federal Reserve itself.

The 2022–2025 episode cited in Section 3 is the relevant precedent: a 17 percentage point rise in the price-sensitive investor share of Treasury holdings accompanied a 1.1 percentage point rise in the term premium.⁵ Further Fed balance-sheet reduction, layered on top of an already-shrinking pool of foreign official demand from China and Japan, could plausibly produce a sharper repricing than any one factor would produce alone — the three legs of this argument are additive, not merely parallel instances of the same idea.

The fiscal stakes are large and precisely quantifiable. The Congressional Budget Office has estimated that each percentage point of interest rates above its projected path would add approximately \$3.2 trillion to cumulative federal interest costs over the coming decade.⁵ With the annual net interest bill already exceeding \$1 trillion — around 16% more than annual US defence spending — the feedback loop is not a marginal consideration: higher debt-service costs raise the deficit, which requires more issuance, which pushes yet more supply onto price-sensitive investors, who demand still higher rates in return.

10. Correcting the Record: What Japan's Policy Actually Is

It is tempting, and we think mistaken, to fold Japan into a story in which it is deliberately engineering yen weakness to import inflation, with rising Japanese yields and a falling yen treated as two sides of one coordinated policy choice. The 2026 data does not support that framing. BOJ rate hikes are widely read by the market as yen-supportive, precisely because

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they narrow the interest-rate differential with a Federal Reserve that has been cutting — standard interest-rate-parity logic, not a contradiction of it. The BOJ's own stated rationale for continued tightening this cycle cites the risk of FX-driven imported inflation — that is, a central bank raising rates to fight the inflationary consequences of yen weakness, not one cultivating that weakness by design.

Where yen weakness has persisted despite the hiking cycle, the more accurate explanation is that Japan's policy rate remains, by the Bank's own internal assessment, the lowest in real terms of any major economy — a large absolute gap that hiking gradually narrows rather than a deliberate strategy of depreciation. This matters for the funding-currency story specifically: the yen's role as a cheap source of carry-trade leverage is fading because the rate differential underpinning it is narrowing, not because Japan has chosen a coordinated weak-currency policy.

11. What We Are Not Claiming

This is not a claim that current AI-related capital expenditure is unjustified or a bubble. That is a separate, genuinely contested debate, and the balance-sheet mechanism in Sections 3 through 9 does not depend on it being resolved either way. A reader who believes AI capex is fully justified by fundamentals, and a reader who believes it is significantly overbuilt, can both accept the reserve-recycling argument on its own terms.

Nor is this a claim that the RMB is inheriting the yen's role as a cheap funding currency for global carry trades. A funding currency is one investors borrow and sell, which puts depreciation pressure on it; RMB's current dynamic — capital flowing in, pushing the currency up — is the opposite flow. To the extent that capital freed up by the yen carry-trade unwind is finding a home in RMB assets, it is because RMB currently offers a plausible appreciation story (per the Dalio lens in Section 6), not because it has become a new source of cheap leverage. The distinction matters: the two stories imply opposite directions for the currency.

12. Synthesis

In our opinion global real yields are rising in 2026 because three of the largest captive, price-insensitive buyers of developed-market government duration — China's reserve managers, Japan's central bank, and potentially now the Federal Reserve itself — are stepping back from that role within the same broad window, for related but distinct reasons. China's retreat reflects a reduced need to resist RMB appreciation, reinforced by geopolitically-motivated diversification into gold; Japan's reflects a genuine policy normalisation aimed at fighting imported inflation; the Fed's, should it proceed, would reflect a deliberate policy choice by its new chair. None of the three markets is being replaced with an equally price-insensitive buyer; in each case the marginal holder is shifting toward private, return-sensitive capital, which requires a higher real yield to clear the same issuance.

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Inflation expectations do not need to move at all for this to happen — and, through most of 2026, they largely have not. That is precisely the signature the mechanism predicts, and precisely the pattern observed in the data, with the 2022–2025 episode providing direct, measured evidence of the same link between buyer composition and term premium that all three legs would be expected to reproduce.

13. Investment Implications

First: do not read the 2026 bond selloff as an inflation story. The real-yield/breakeven decomposition is itself the signal. A term-premium-driven backup and an inflation-driven backup call for different portfolio responses, and conflating them risks the wrong one.

Second: treat the China and Japan evidence as corroborating, not conclusive. Both bond markets retain significant administered elements — capital controls and captive buyers in China, a still-dominant central bank in Japan — so neither is a clean, freely-clearing market signal on its own.

Third: the funding-currency landscape is reallocating, not simply vacating. Capital once funded cheaply via the yen is dispersing across several destinations — RMB, euro, Swiss franc, selected emerging markets — rather than concentrating in a single successor.

Fourth: if reserve recycling continues to unwind, elevated term premia may persist even with inflation fully anchored. That would represent a genuinely different regime from the post-2008 low-real-yield era, with implications for duration positioning well beyond the current cycle.

Fifth: watch Fed balance-sheet policy as a distinct, additive risk, not a repeat of a known factor. If Chair Warsh proceeds with his stated ambition to shrink the Fed's securities holdings, the 2022–2025 precedent and the CBO's own rate-sensitivity estimates suggest the fiscal and market consequences compound with, rather than simply add to, the China and Japan legs already in train.

Conclusion

The 2026 backup in global bond yields has been, overwhelmingly, a backup in real yields rather than a repricing of inflation expectations. That decomposition rules out the simplest story — that markets fear an inflation surprise — and points instead toward a balance-sheet explanation: three of the largest price-insensitive buyers of developed-market government duration are retreating from that role within the same broad window. China's reserve managers need less dollar exposure to resist an appreciation they are increasingly permitting, and are diversifying into gold for separate geopolitical reasons; Japan's central bank is normalising policy to fight imported inflation; and the Federal Reserve's own chair has stated an ambition to shrink the Fed's balance sheet further still. The resulting gap is being filled by

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price-sensitive private capital that demands a higher real yield to hold the same duration, entirely independent of the inflation outlook.

This is Bernanke's global saving glut running in reverse, and the US Treasury market's own holder-composition data — price-insensitive ownership falling from 76% to 43% over nineteen years, with a measured 1.1 percentage point rise in term premium accompanying the last major shift in that composition — turns what would otherwise be an inference into a documented fact. None of this requires a view on the AI capital-expenditure debate, and none of it requires believing the RMB has become a new funding currency in the yen's image — both are separable claims this note deliberately declines to make. What remains is a balance-sheet story about who holds government duration and why, and it is, at minimum, a second and independent line of evidence for the argument made throughout our companion note on China's exchange-rate policy.

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