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Investment Institute

Market Commentary

Weekly perspective on current market sentiment — **September 16, 2026**

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Last week's S&P 500 Index: -0.8%

When everyone wants to borrow

Key takeaways

- Both government and corporate borrowers have issued significant debt, helping to drive yields to multi-year highs.
- The rise in yields is a headwind for fixed-income investors, but we do not see default on the horizon. Investors may wish to hold onto long-term bonds to maturity, instead of selling into weakness, and deploy new cash in short-term fixed-income securities.

Borrowing and interest are among the most familiar concepts in finance. Most people understand that if you lend something to a friend for an extended period of time, you expect it back along with something extra for the inconvenience. That's true if you're lending a classmate a textbook or a corporation your money by buying a bond. Repayment with interest is a simple idea, but it is vitally important for bond investors.

As the U.S. government has persistently run a budget deficit, large amounts have been borrowed and bonds issued to fund the debt. Recently, major corporations have also issued significant debt to fund the buildout of artificial-intelligence (AI) infrastructure. Generally speaking, the more a government or corporation borrows, the higher the yield to the lenders. You might be more cautious if your classmate asks for not just your algebra notes but your geography textbook as well. It's not surprising then that yields have risen to multi-year highs. This surge of borrowing seems unlikely to end soon, which should pressure yields higher.

Yet, larger borrowing does not make default either imminent or inevitable. Corporate earnings have generally remained strong, and the extra yield on investment-grade corporate debt above a comparable Treasury yield has not increased significantly this year. As for U.S. Treasury debt, no other country matches U.S. economic size or ability to raise revenue through taxes. Yes, we do believe that the U.S. Treasury's current pace of borrowing is unsustainable, but the recent rise in yields has not shown investor panic, nor, again, have spreads widened over corporate debt. Our view is that investors want to be paid more as more debt issuers — public and private — come to the marketplace.

Not all debt is created equal. Additional corporate debt places upward pressure on yields today but we believe it will generate future economic growth and extra revenue to pay Treasury bond holders. We addressed this outcome in detail in our recent report, "Can AI Help Pay America's Bills?" Just as borrowing a textbook helps a student learn and be more productive, investing in technology makes workers and machines more productive and, over time, promotes stronger economic growth.

For now, we view the extra bond issuance as pushing bond yields higher and reducing bond returns. Thus, when allocating new funds, we favor short-term fixed-income securities whose prices and returns are less sensitive to rising yields. Investors holding longer-term bonds should consider their cash-flow requirements and may prefer to wait for maturity rather than sell into potentially falling prices.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. Although **Treasuries** are considered free from credit risk they are subject to other types of risks. These risks include interest rate risk, which may cause the underlying value of the bond to fluctuate.

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