Novum Partners: Biweekly Market Update

Financial Repression, American Style: Constructive on Assets, Wary of the Policy Mix

August 21, 2026

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Last 2 weeks performance

World Equity Indices

	% TR USD	% TR Local
MSCI World	-1.1%	-1.1%
S&P 500	-1.4%	-1.4%
S&P 500 Equal Weighted	0.0%	0.0%
Mag 7 Index	-2.9%	-2.9%
Russell 2000	-1.3%	-1.3%
Euro Stoxx 50	-0.1%	-1.1%
CSI 300 Index	-1.1%	-1.5%
Hang Seng Index	1.4%	1.4%
Nikkei 225	-0.3%	0.6%
MSCI Asia	1.6%	1.6%
MSCI Latam	-2.4%	-2.4%
MSCI EM	2.6%	2.6%

S&P 500 Sectors

	% TR USD
S&P 500 Info Tech	-2.5%
S&P 500 Comm. Serv	-3.2%
S&P 500 Health Care	4.1%
S&P 500 Financials	-0.4%
S&P 500 Cons Discr.	-2.9%
S&P 500 Energy	11.4%
S&P 500 Real Estate	0.6%
S&P 500 Materials	0.9%
S&P 500 Industrials	-2.4%
S&P 500 Cons Staples	-0.5%
S&P 500 Utilities	0.4%

Key Thematic Indices

	% TR USD	% TR Local
ARK Innovation ETF	4.8%	4.8%
Software ETF	-0.8%	-0.8%
Memory ETF	13.8%	13.8%
Semiconductors ETF	-3.9%	-3.9%
Momentum ETF	-0.9%	-0.9%
GS Cyclicals	-2.7%	-2.7%
BBG Defensive Sectors	-0.86%	-0.86%

Fixed Income

	% TR or bps
LQD (High Grade)	-0.5%
HYG (High Yield)	-0.1%
US Treasuries Index	0.0%
TSY 2 year (bps)	1
TSY 10 year (bps)	7
Bund 10 year (bps)	12
SOFR March 27 rate (bps)	-4

FX & Commodities

	% TR USD
US Dollar Index	-0.8%
Bitcoin	17.9%
BBG Precious Metals	6.2%
BBG Energy	13.5%

Data as of 21 August

Executive summary

- Macro/markets kept brief to focus on the Treasury's expanded long-end buyback - and our more critical read of it.
- Iran/Hormuz standoff pushed Brent above $93, US data flipped from soft to hawkish, FOMC leaned hawkish.
- Long end led the move: 10yr/Bund yields up, 30yr hit post-2007 highs, dollar hit 3-month lows on the buyback news before partly reversing.
- Bitcoin (+17.9%) and precious metals (+6.2%) snapped their slumps on the debasement narrative.
- Mechanically a Treasury-run "Operation Twist," not QE - funded by real issuance, not reserve creation.
- Below-par buybacks shrink the nominal debt count, not the economic interest burden - an accounting effect, not fiscal relief.

- Bessent's 3% deficit target and DOGE are gone, the deficit is near 6% and widening (CBO), yet every threat near 4.75% gets a financial fix, not spending discipline.
- Timing - weeks before the midterms, targeting the 30yr that anchors mortgage rates - looks as much electoral as economic.
- Shortening debt duration (WAM 7.71yrs, down from 8.4) swaps term-premium risk for dependence on fed funds - a bet on inflation and the FED cooperating.
- **Bottom line: constructive on risk assets, not the policy mix - stay invested; expect risk-asset gains to outpace the dollar's likely depreciation.**

A brief note on scope: we are keeping the economics and markets section unusually short in this note, to leave more room for a deeper dive into this week's Treasury announcement - Secretary Bessent's decision to sharply increase the long-end buyback programme - and our own, more critical view of it, later on.

The past two weeks were dominated by the Middle East stand-off: US-Iran talks over the Strait of Hormuz collapsed, Trump threatened the "most crushing economic operation ever," and Brent ran from the low-$80s to above $93/bbl. Washington and Ottawa edged toward a partial tariff de-escalation, while Japan's hawkish drift continued on firmer CPI and PMI prints. On data, a soft July jobs report and benign CPI/PPI gave way mid-period to a string of hawkish surprises - Empire State, German ZEW, a Philly Fed reading at its highest since 2021 with capex intentions last seen in the 1970s - and hawkish-leaning July FOMC minutes under new Chair Warsh.

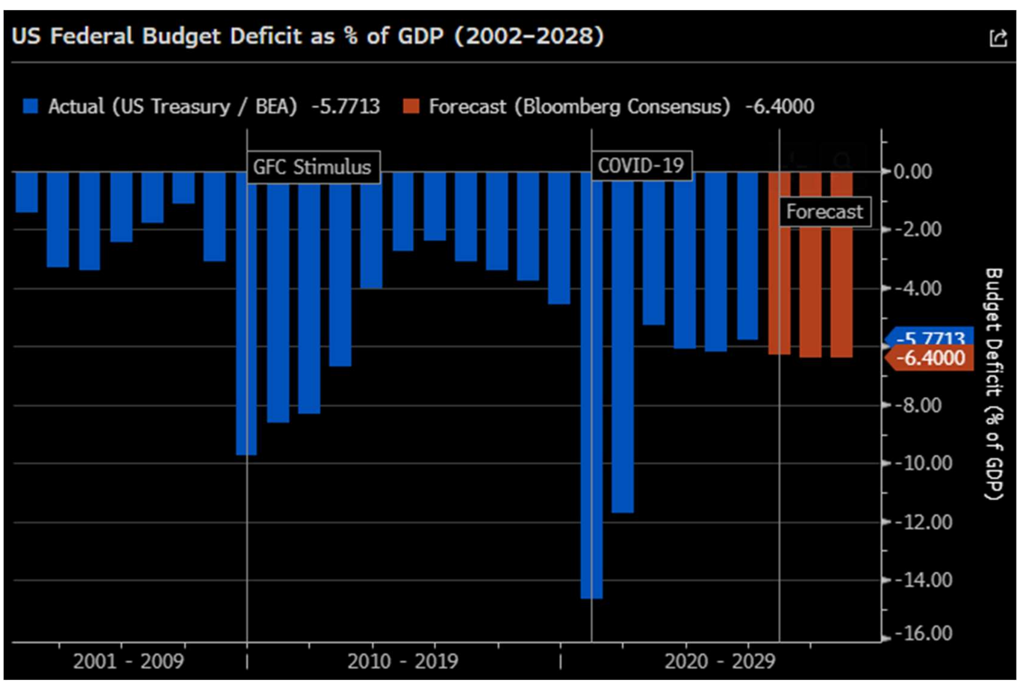
Markets spent the fortnight caught between resilient growth and a fresh energy-driven inflation scare, and it was the rates market that bore the brunt: 10-year Treasury and Bund yields both pushed higher over the period (see table), with the front end far calmer than the long end, which briefly hit post-2007/2011 highs before the Treasury's buyback announcement triggered a sharp, short-lived reversal that had largely faded by Friday. The dollar was the other release valve, sliding to three-month lows around the buyback news - a pattern we return to below. Equities were choppy and narrow rather than directional: headline indices posted modest declines while leadership rotated hard, with Energy up double digits on the oil spike, Health Care boosted by idiosyncratic biotech news, and Info Tech, Communication Services and the Mag 7 lagging as the AI trade fractured internally (Memory strength, Semiconductor weakness). The standout move, though, was in Bitcoin (+17.9% over the two weeks), which the Treasury's buyback announcement and the debasement narrative it unleashed seem to have shaken out of the lethargy that had left it down roughly 15% year-to-date. Gold and broader precious metals (+6.2%) told a similar story, snapping the heavy correction that had weighed on the complex through the first half of 2026, with gold posting its best single day since February on the announcement itself. It's this rates-dollar-fiscal nexus we now turn to in more detail.

US Treasury Market Under Pressure: Steepening, the Buyback Signal, and Why We Remain Constructive

Bond market volatility has picked up sharply again over the past few days, reviving client questions about the sustainability of US debt that have been fed by a run of alarmist headlines. The immediate catalyst has been a fresh, uneven repricing across the Treasury curve - and, on Wednesday, the Treasury's decision to sharply increase its long-bond buyback programme.

Mechanically, this kind of intervention can work, and we explain below why we think it does, at the margin. But it is worth saying plainly, before we get into the mechanics, that this is a risky way to run fiscal policy - and the risk sits far more in the trajectory of the deficit than in the stock of debt outstanding. When Secretary Bessent took office he spoke of bringing the deficit down toward 3% of GDP, with DOGE positioned as the vehicle to get there.

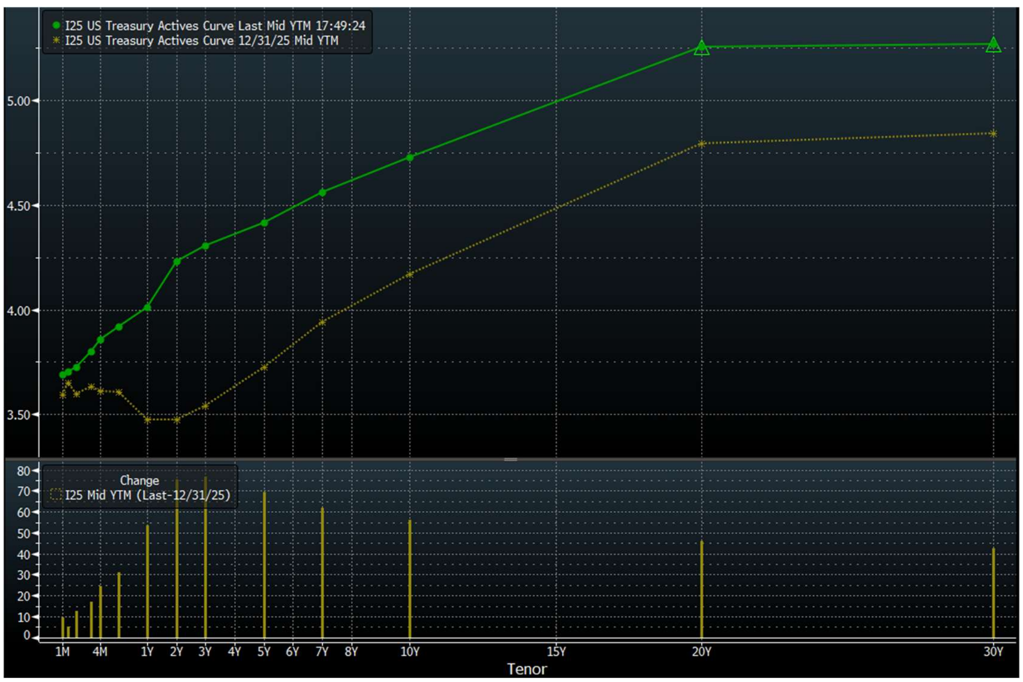
The timing of this particular move is also hard to separate from the political calendar: with the November midterms approaching, a lower 30-year yield is not an abstract technicality - US mortgage rates are priced directly off that part of the curve, so compressing it is one of the most visible, voter-facing levers available to an administration this side of an election, and a far faster-acting one than any structural fiscal reform. Below we set out the facts, the mechanics behind today's announcement, why we think the duration-shortening strategy has real limits of its own, and where that leaves our positioning.



US federal budget deficit as % of GDP. Source: US Treasury / BEA; Bloomberg.

The Facts: A Steeper, More Expensive Curve

Pressure has built unevenly across the curve. The short end has stayed comparatively anchored, with front-end funding costs sitting around 3.75% and 5-year yields still trading within the same 3.5% - 4.5% channel they have occupied since the 2022 reset, as soft labour and inflation data give the Fed no urgent reason to tighten further. Move further out, however, and the picture changes sharply: the 10-year note came close to touching 4.75% this week, while the 30-year bond briefly threatened 5.35% - the highest level since before the Global Financial Crisis. The result is a pronounced bear-steepening: the gap between short-term funding costs and the 30-year is unusually - and historically rarely - wide. Crucially, it is the 20- to 30-year segment that is genuinely under stress; the 5- to 10-year part of the curve, which matters most for corporate valuation work, is holding up far better.

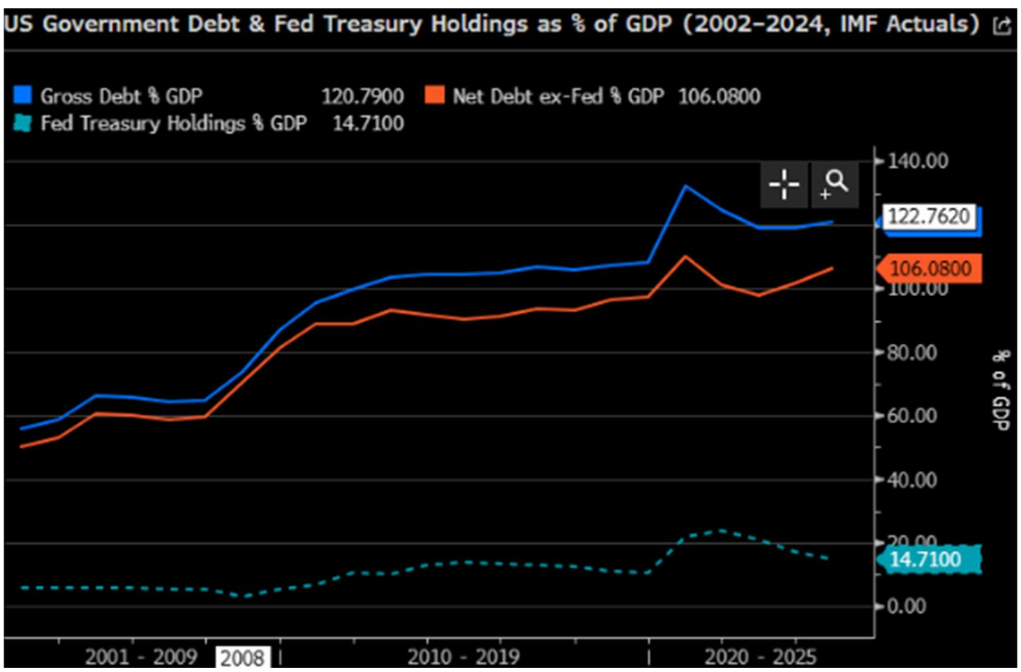


The chart shows the US Treasuries yield curve changes from end 2025 (yellow) until today (green). Source: Bloomberg

Why It Matters: Equities and the Treasury's Own Funding

A sustained rise in long yields is a problem on two fronts. For equities, higher discount rates compress the present value of future cash flows in DCF models - felt most acutely by long-duration growth names and by the large capex programmes (data centres, AI infrastructure, energy build-out) that markets are currently pricing fairly. So far the direct damage has been contained, precisely because equity valuation work leans on 5- to 10-year rates rather than the 30-year, which remains comparatively better behaved. Where the strain is already visible is in more rate-sensitive corners of the real economy: US housing starts were down roughly 13% year-on-year in July, with transaction volumes thin - a preview of what a further, unchecked rise in long yields could do more broadly.

For the Treasury itself, higher long-end yields raise the cost of an already very large refinancing programme. We do not see this as catastrophic in isolation: a meaningful share of outstanding debt is held by the Federal Reserve, which rebates most of the interest it earns back to the Treasury, and as long as nominal GDP keeps growing faster than debt issuance - still running at 5 - 6% nominal in the US - the debt ratio can stay broadly stable even with large deficits. That arithmetic, however, only works if the deficit itself stabilizes or narrows over time; on the CBO’s current trajectory it is doing neither, which is a large part of why we spend as much time on the deficit path in this note as we do on curve mechanics. It also explains why Washington is paying such close attention to the level of long yields.



Source: US Treasury / BEA; Bloomberg.

What's Driving the Move: A Mix of Good and Less-Good Reasons

The rise is not driven by a single factor. Part of it is a genuinely constructive story: real yields are climbing because growth and productivity expectations are improving, largely on the back of AI-related investment - a dynamic that is disinflationary even as it lifts real rates. Part of it is fiscal: growing deficit-financing needs, both in the US and in traditional “risk-free” markets such as Germany, are adding to net supply. A smaller, but present, layer is geopolitical and tariff-related inflation risk. And a further, increasingly important factor is competition for capital: hyperscalers are issuing record volumes of debt to fund infrastructure and data-centre build-out, adding a large new source of long-duration issuance that competes directly with Treasuries for the same pool of capital (we extensively wrote on this theme in June). None of this is inherently alarming, but together it explains why term premium has been rebuilding.

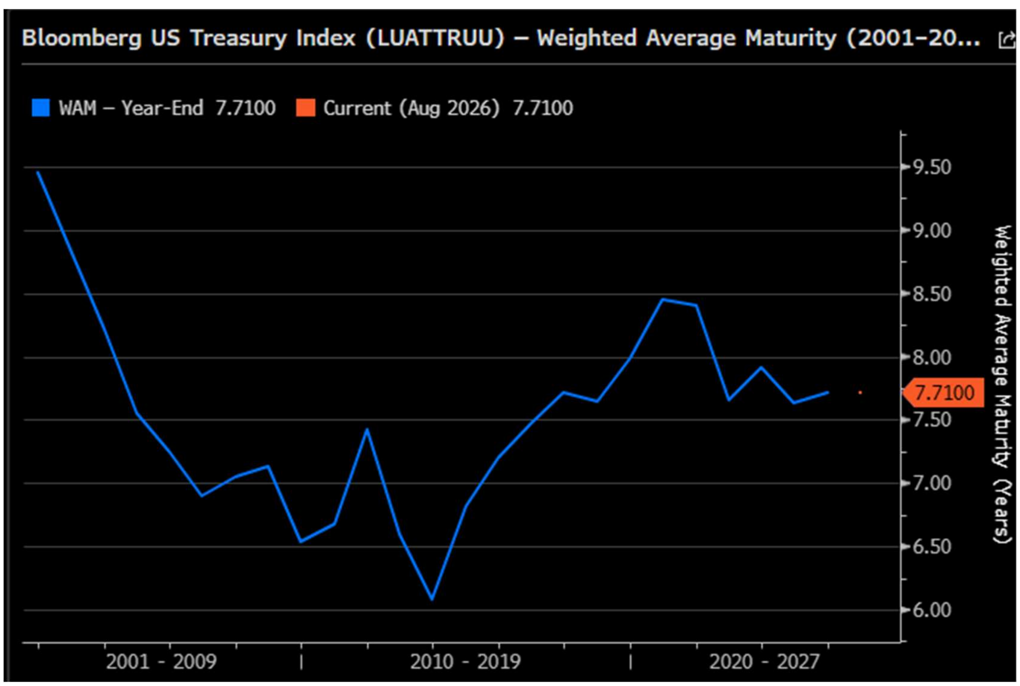
The Treasury Buyback: What It Is, Why Now, and What It Can (and Can't) Do

Wednesday's news was the Treasury doubling the size of its long-dated buybacks - in the 10- to 20-year and 20- to 30-year buckets, from $2bn to $4bn per operation - bringing long-tenor buyback sizes into line with shorter maturities.
The mechanism is an extension of a liquidity-support programme first introduced in May 2024: the Treasury repurchases older, less liquid ("off-the-run") bonds, funding the operation through bill issuance - in effect swapping duration for short-term paper, a close cousin of the Fed's old "Operation Twist." Officially, the move is framed purely as a liquidity measure. But the timing is telling: this quarter's schedule was only set two weeks ago, and revising it so soon - precisely as 10- and 30-year yields hit multi-year highs - reads as a signal that the Treasury is watching, and willing to act.
Does it work? At the margin, yes, but we would not overstate its structural power, however: $4bn is small next to total outstanding issuance, and buybacks are temporary, since any bond repurchased has to be refinanced at a subsequent refunding. This is not equivalent to permanent, Fed-style purchases. Our reading is that it can dampen the pressure on long yields, not remove it.

It is worth being precise about what this operation mechanically is and is not. Structurally, it functions as an Operation Twist run by the Treasury rather than the Fed: long duration is swapped for short-term bills, funded by real cash raised in the market rather than by reserve creation - which is exactly why this is not QE, whatever some of the more excitable headlines suggest. Because many of the older bonds being repurchased carry low coupons and trade well below par (recent operations have reportedly been executed at prices in the 50s -70s), retiring them removes more face-value debt from the statutory count than the cash actually spent, freeing a little headroom against the debt ceiling. That is a real, if narrow, effect - but it is a nominal accounting benefit, not an economic one: the cash used to fund the buyback is borrowed afresh at today's market rate, so the Treasury's interest burden in present-value terms is little changed, and near-term cash debt service can just as easily rise as fall. None of this touches the deficit that keeps generating the supply in the first place; it treats the symptom - pressure on the curve - rather than the cause.

The Limits of Shortening Duration

There is also a limit to how far this particular lever can be pulled. The Treasury has been quietly shortening the average maturity of its outstanding debt for some time: the weighted average maturity of the Bloomberg US Treasury Index has come down from a post-pandemic peak of roughly 8.4 years to 7.71 years as of August 2026 (see chart), and every buyback that swaps a long bond for bills nudges that figure lower still. That has real costs. A market that prices debt across a full curve, from bills to 30-year bonds, is one with genuine, distributed price discovery; concentrating issuance and refinancing at the short end instead makes the government's funding cost an increasingly direct function of the fed funds rate, rather than of a broader market assessment of long-run growth, inflation, and fiscal risk. That is a bet, not a solution. If inflation proves sticky - and geopolitical risk around tariffs, energy, and supply chains argues it could - the Fed will have limited room to cut, and a balance sheet funded increasingly short-term will simply roll that debt at a persistently high rate. In that scenario, shortening duration does not lower the government's true cost of funding; it just relocates the risk, from the long end of the curve, where the whole market prices it, to the path of the fed funds rate, where it becomes a single point of failure.



Source: Bloomberg.

Novum's View: Constructive on Risk Assets, Skeptical of the Policy Mix

We remain constructive on markets overall - a stance consistent with our Fixed Income YTD 2026 base case, where we already flagged that long-end yield levels increasingly incorporate a risk premium that looks excessive relative to fundamentals, and where we have been gradually adding duration and holding inflation-linked exposure into this repricing.

On top of that fundamental case, we would add a second, more tactical observation - and it is not an especially reassuring one. Each time the 10-year has pushed decisively above 4.75% this cycle, some form of administration action has followed; this time it is the buyback. We have also seen the administration discourage unilateral Japanese intervention in the yen, step up agency purchases, and use trade policy as a lever - a broadly interventionist posture under Treasury Secretary Bessent. Taken together, this looks less like a coherent strategy and more like a habit of reaching for the nearest financial-engineering tool whenever pressure builds, in place of the structural spending discipline that would remove the pressure at its source. Our working assumption is that long-end yields are, in practice, soft-capped somewhere near 5% - not because fundamentals demand it, but because policy is likely to keep leaning against a disorderly move past that level. Leaning against the market, though, is not the same as fixing the underlying problem: every quarter the deficit runs above 6% of GDP is another quarter of supply that eventually has to be absorbed by someone.

The cost of this approach is likely to keep falling on the dollar: if the market price of Treasuries is not "allowed" to fully adjust, the adjustment increasingly shows up in the exchange rate instead, and we would expect further USD softness from here. That cost will not be borne evenly - a weaker dollar effectively exports financing pressure to the rest of the world, particularly to economies and currencies that price trade, commodities, and debt in dollars and have no say in how US fiscal policy is run. To be clear, none of this makes us cautious on risk assets - quite the opposite. We see these policies as genuinely reflationary and expect that backdrop to remain a strong net positive across risky assets; staying invested matters more than hedging the dollar, and we expect risk-asset performance to comfortably outpace the scale of dollar depreciation, so the total-return conclusion for portfolios is unchanged: own the assets that benefit from the liquidity, rather than sit out of them to avoid a currency move. We would simply be careful not to let that constructive stance on assets read as comfort with the policy mix producing it. Mechanically, this can work for markets. As fiscal policy, it remains a risk we think Washington is choosing not to address.