

"IT DOESN'T MATTER ANYMORE"

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By Brahm Satov

When bond yield rise, it can have some very profound implications for the economy and for the stock markets, however it seems like no one is really paying attention, perhaps it doesn't matter anymore. When rates rise, that affects the cost of capital, for families, for corporations and for government and that could put the squeeze on the economy.

I remember when I was young, and my parents would go through these extremely stressful periods where business would be lousy and they would worry about paying for the mortgage and car payments. They were not great at saving for a rainy day, like many, the more they made, the more they spent, so when times got tough, things got difficult. One memory that's stuck with me: my mom returning groceries at the checkout because we didn't have enough to pay for it. In retrospect, I'm sure she was embarrassed, but more than that, she was probably just worried about putting food on the table. As some of you may already know that the very talented, Linda Ronstadt covered "It Doesn't Matter Anymore" in 1974.

Most of us are pretty familiar with the stock market, and less familiar, or likely interested, in the bond market. But it's worth noting the bond market is far bigger than the stock market, and most would argue it's smarter too. If trouble's brewing, it usually starts there. Quick refresher: bonds are just debt, issued by governments (federal or provincial) or corporations (Loblaws, Apple, whoever). Buy a Canadian government bond, and you're lending the government money. Same with a Loblaws bond, you're lending to Loblaws.

We all know that when mortgage rates rise, it gets harder to afford a home. First-time buyers usually compare renting vs. buying (often without factoring in the roof, furnace, hot water tank, repairs, renos, you know, the fun stuff), but as rates rise, buying gets less advantageous, and for existing mortgage holders renewing, more expensive.

Recently, long-term bond yields have risen to levels we haven't seen since 2007. That's a big move with real implications. When yields fall, it's a tailwind for the economy, borrowing gets cheaper. When yields rise, borrowing gets more expensive, and that can lead to economic weakness. Bonds, like stocks, move on supply and demand, and since North American governments have been overspending for years, debt levels are at unprecedented highs. More debt means more issuance, more supply, and even if we had steady demand, that means falling prices. Since bond prices and yields move inversely, prices down means yields up. For years, falling bond yields supported the economy and fueled housing. That trend has flipped, and rising yields are now putting downward pressure on both.

David Rosenberg put it well: "Because the economy is priced off the 10-year Treasury yield, and the fact that both mortgage and auto loan rates are flirting near 7% is a problem. The pundits on TV keep talking about how resilient the economy is to these elevated market interest rates without realizing that there are corners of the equity market messaging that there is indeed a problem." (Breakfast With Dave, 2026-08-24)

To combat higher rates, the U.S. Treasury has said it'll buy more long-dated bonds, "Operation Twist": sell short paper, buy long paper, push down long-term yields without printing new money. That adds demand for longer bonds, which should lower yields there. But don't mistake this for a sign things are fine, like quantitative easing, you don't pull out Operation Twist unless there's a problem. And there's plenty to be worried about on the debt front. Historically we've seen big deficits in tough times; but now it just seems like the norm every single year. The interest payments on the debt now cost more than the entire defence budget, staggering. It's long overdue for lawmakers to get the fiscal house in order. Instead, this year's deficit (fiscal year ending September 30) is tracking toward roughly 6.4% of GDP, even bigger than it was under President Biden. For what it's worth, Canada's fiscal picture is a bit better than the U.S.'s, but we've been on a similar road for a while now too.

All currencies devalue over time, globally. As central banks print more money, increasing supply, value and purchasing power fall. Fifty years ago, you could buy a mansion in Toronto for \$1 million. Try that today. Investors may consider purchasing gold as a means to preserve purchasing power. Precious metals rise and fall like any commodity, but gold in particular tends to track the strength or weakness of the U.S. dollar closely. Some investors may have been fortunate in selling precious metals positions back in January when gold was trading north of \$5,200/oz. But after the weak U.S. employment data in July, investors may have seen a benefit in re-entering gold and silver positions, as there could be renewed downward pressure on the greenback, and likely the loonie too.

So, does it matter anymore? I think it does. Rising rates can be a real sign of stress in the system, and if bond supply keeps rising and demand does not rise along with it, then yields keep rising, and the cost of capital keeps climbing right along with them. Falling rates stoke housing demand and fuel the economy; rising rates do the opposite. And when I think back to my mom at the checkout counter, quietly putting groceries back, that's exactly the kind of squeeze that shows up when rates bite. So no, I'm not so sure it doesn't matter anymore.

Thank you very much for taking the time to read our newsletter and feel free to send us any comments or suggestions.

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