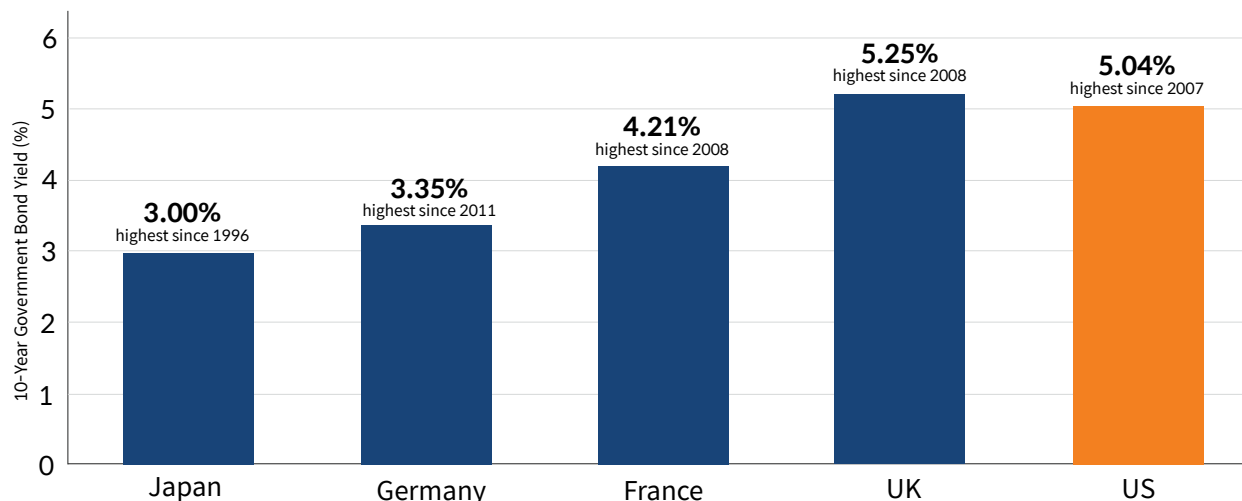


The Structural Story Behind Rising Yields

Across the world, investors are making bond markets pay up. Government debt, once treated as a no-brainer safe haven, is now being priced with a much harder look at both cost and time horizon. On September 14th, the yield on ten-year US Treasuries topped 5%, its highest level in nearly two decades. The median yield on rich countries' ten-year government bonds is above 4%, its highest in more than 15 years and roughly five times its 2015–21 average.

**DM Bond Yields Are Converging on Multi-Decade
As of mid-September 2026**



Source: Bloomberg, Reuters, market reports, Sep-2026

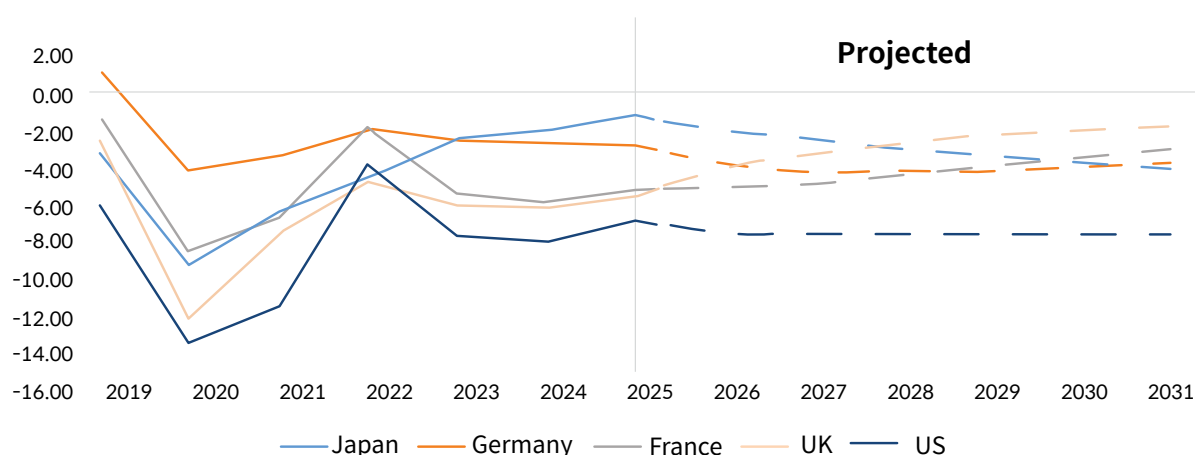
The immediate trigger is an escalating Middle East conflict that has pushed oil above \$100/bbl, reviving inflation fears. But the energy shock is only the spark, underneath it sits a heavier, structural story that has been building for years across almost every major developed economy.

The Underlying Triggers Driving The Yields High

Widening fiscal deficit

For the two decades since the financial crisis, developed markets grew used to a cheap source of funding, interest rates were kept low, and rightly so, given benign inflation and subdued growth. When Covid hit, central banks around the world rushed to keep economies afloat, steep interest cuts were undertaken and governments pumped large sums into their economies. While this helped economies sail through the pandemic smoothly, failing to reverse course afterwards has left fiscal deficits widening ever since. What's increasingly worrying is that borrowing costs are now rising just as government debt sits at record highs.

General Government Fiscal Balance

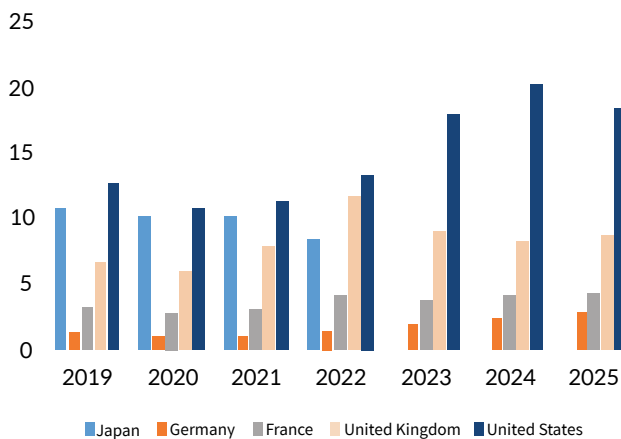


Source: - World Bank | Data As On Sep 2026

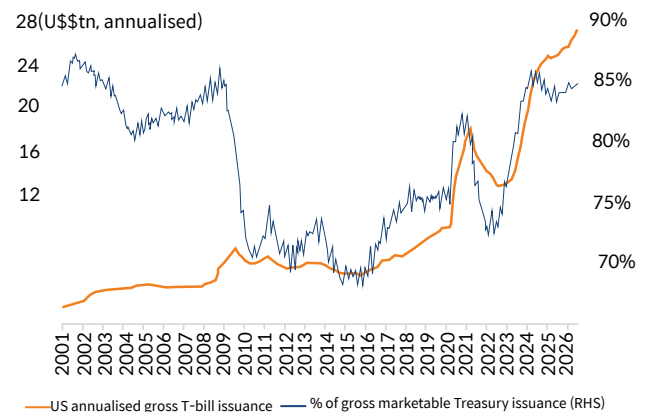
Interest payments

Interest payments already consume a growing share of government revenue, and every maturing bond is being refinanced at a higher rate than the one it replaces. To avoid locking in these elevated long-term costs, governments have leaned on shorter-tenor issuance instead, in the US, for instance, Treasury bills now make up a much larger share of total issuance than their historical norm. It buys time, but raises a question of its own: how long can this be sustained, and at what cost when it eventually has to be refinanced too?

Interest payment as % of revenue

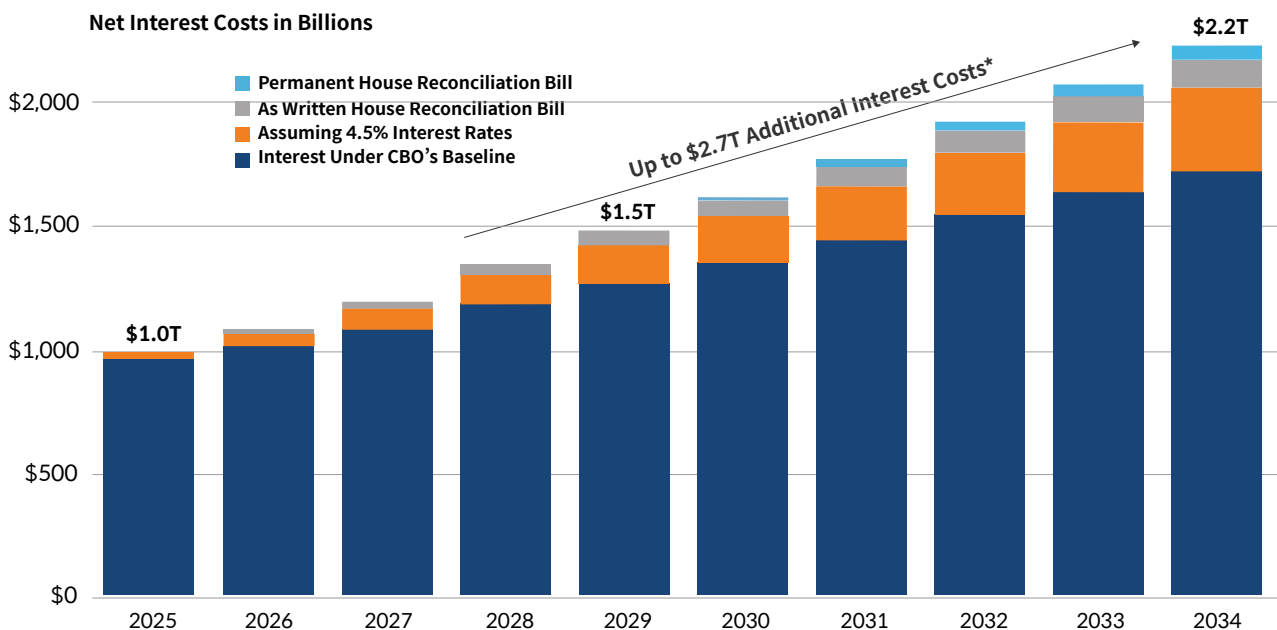


US gross issuance of Treasury bills as % of total Treasury issuance (annualised)



Source: -Bloomberg, World Bank | Data As On Sep 2026

Interest costs could Exceed \$2 Trillion



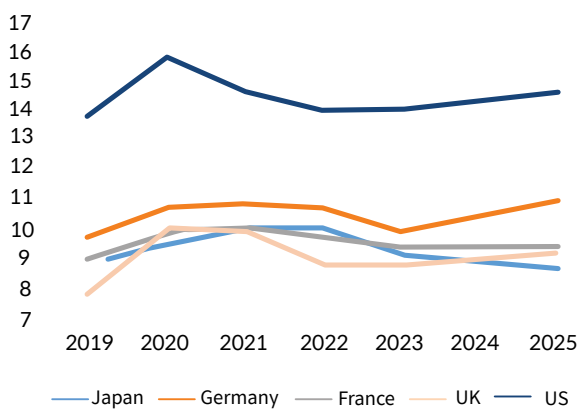
Sources: Congressional Budget Office, Committee for a Responsible Federal Budget.

Note: Estimates assume all yields rise above baseline by the same magnitude as the 10-year. *\$2.7T additional interest costs above CBO's baseline projections assuming extension of House reconciliation bill and permanent 4.5% 10-Year Treasury note. | Data As On Sep 2026

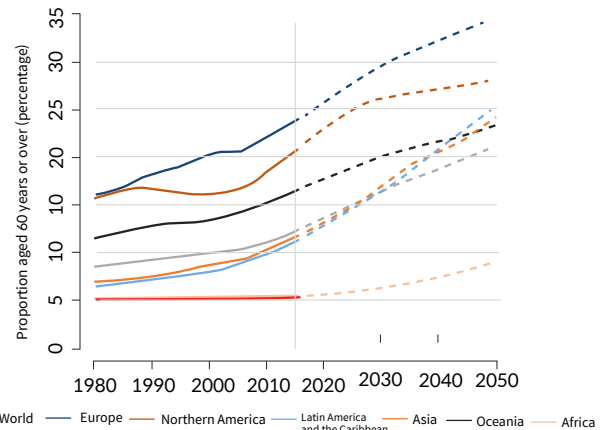
Demography and Social security spending

Alongside widening deficits and rising interest payments, an ageing population adds another layer of complexity. The number of elderly people is rising, with direct consequences across social and economic life, labour markets, demand for goods and services, spending on social protection, pensions and public finances, and family and intergenerational relationships. According to UN demographic projections, the number of elderly people will double by 2050 to reach 2.1 billion people aged 60 and above, at which point they will also outnumber adolescents and young people aged 10 to 24. That shift shows up directly in government budgets: public health expenditure as a share of GDP has already crept higher across most developed markets, and pension and healthcare bills will only climb further as the dependency ratio worsens — adding a structural, non-negotiable layer of spending right as governments are also paying more to service their debt

Public health expenditure as a share of GDP



Proportion aged 60 years or over (%)

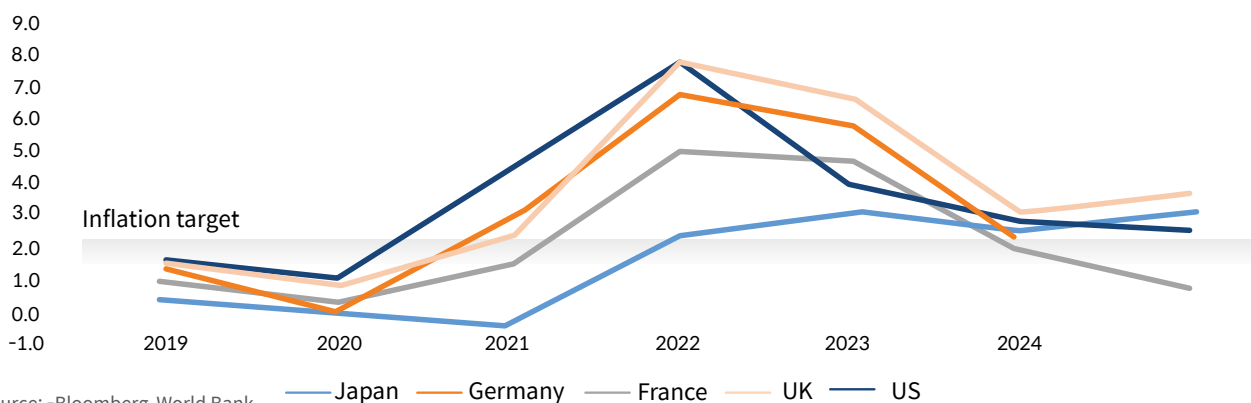


Source: - United Nations, World Population Prospects, World Bank | Data As On Sep 2026

Inflation not nearing the target

Economies enjoyed two decades of low inflation before Covid, but bringing it back near target has been a struggle ever since. A string of shocks hasn't helped, pandemic-era supply disruptions, tariff wars, geopolitical conflict (Russia-Ukraine, US-Iran), and the sheer volume of money central banks injected into the system to begin with. Together, these have kept inflation elevated well above target for longer than most policymakers expected, and every fresh shock resets the clock on how soon it can be brought back down. As a result, investors are now demanding a premium for inflation risk, on top of everything else already discussed and that premium shows up directly in the yields being paid today.

%Inflation (Annual)



Source: -Bloomberg, World Bank

Source: -Bloomberg, World Bank | Data As On Sep 2026

What to Watch from Here

The situation is deteriorating, and the underlying arithmetic isn't easing. Surging yields alongside persistent deficits mean the gap between spending and revenue keeps widening, and that's making the path forward more difficult for developed nations. Many economies appear to be pushing out the timeline for addressing this, in the hope that conditions ease once supply chains normalise but postponement doesn't resolve the underlying issue, it simply delays it. As cheap debt matures, interest bills will rise, deficits will likely widen further, and the fiscal adjustment eventually needed to stabilise debt will become more difficult. That, in turn, could push yields higher still, adding to the very pressure policymakers are trying to manage. The longer this is put off, the harder it may become to address. Three things are worth watching from here: how central banks calibrate policy against still-elevated inflation, whether long-end auctions in the US, UK and Japan continue to clear smoothly as supply grows, and whether governments move toward fiscal consolidation rather than relying on growth alone to outrun the debt.

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Note by:

Ms. Kruti Chheta

Fund Manager & Fixed Income Analyst

Mirae Asset Investment Managers (India) Pvt. Ltd.