

Monthly Macro Letter

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The rise in global long-term interest rates

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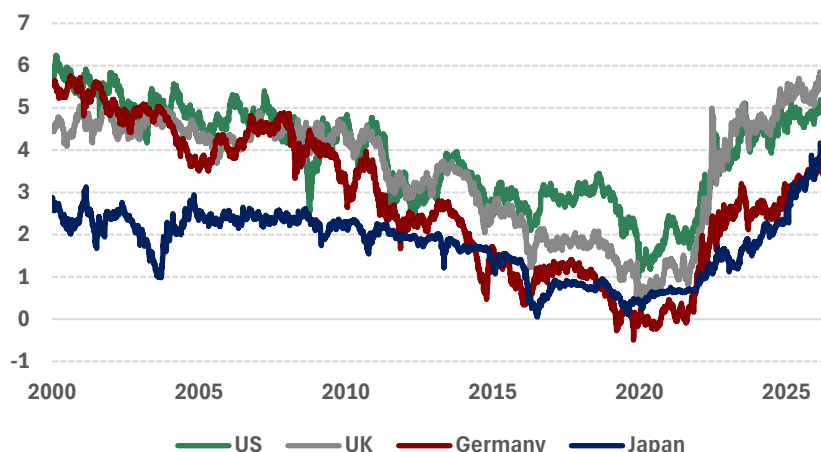
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Long-term government bond yields continue to rise sharply around the world. Thirty-year interest rates in several advanced economies have reached their highest levels in decades (Figure 1). In the United States, the 10-year Treasury yield has increased from 4.2% at the beginning of the year to 5.3%, reaching its highest level since 2007. The move primarily reflects higher real interest rates, while market-implied inflation expectations have remained relatively contained.

Figure 1: 30-year Nominal Yields



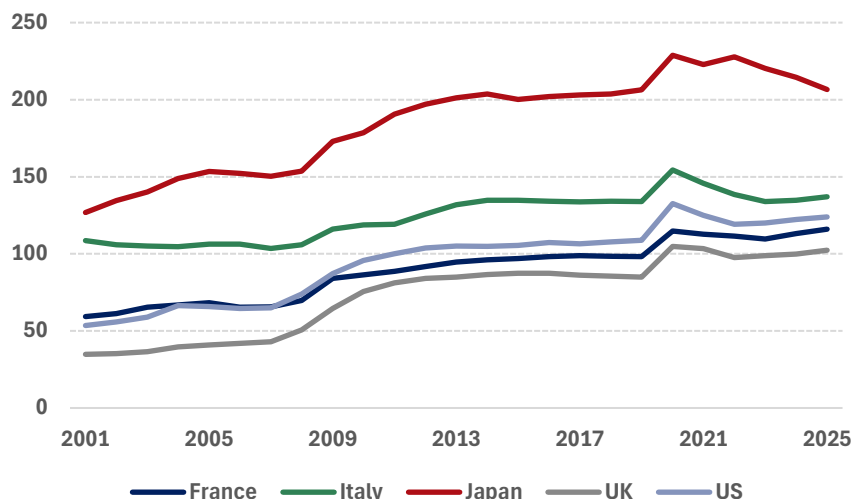
Source: BOCOM BBM, Bloomberg

The synchronicity of this movement suggests the presence of common factors that transcend country-specific conditions, such as fiscal policy, growth dynamics, inflation, and the conduct of monetary policy. Among the main drivers are high public debt levels, rising geopolitical uncertainty, and increasing demand for capital to finance investments associated with artificial intelligence (AI). Although operating through distinct channels, all of these factors contribute to higher long-term interest rates.

Public debt levels are at historically elevated levels across the major advanced economies. In the United States, government debt already exceeds 120% of GDP; in Japan, it remains close to 200% of GDP; and in Italy, it stands at around 137% of GDP (Figure 2). Even in the absence of any significant recent fiscal deterioration, the prospects for reducing these ratios appear limited. On the contrary, plans to increase spending on defense, national security, industrial policy, and the energy transition

suggest that governments' financing needs are likely to remain elevated in an increasingly fragmented world from a geopolitical standpoint.

Figure 2: General Government Gross Debt (% of GDP)



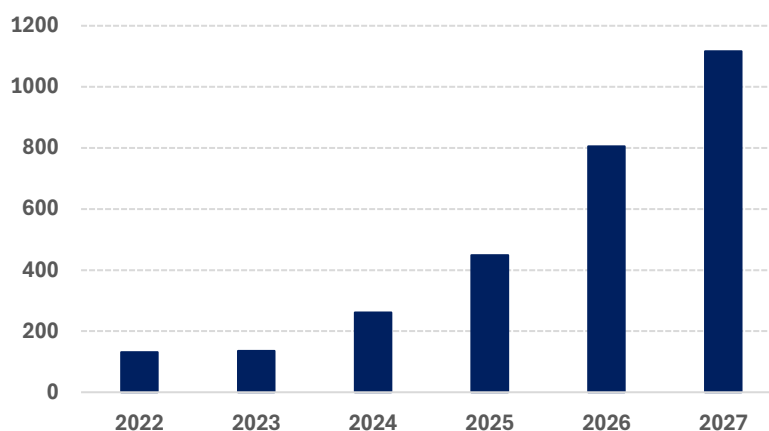
Source: BOCOM BBM, IMF

At the same time, the rise in conflicts, wars, and trade disputes increases uncertainty regarding growth and inflation trajectories, raising the premium investors demand to hold longer-term securities. In other words, heightened risk perception increases the compensation required for long-term investments, putting upward pressure on sovereign bond yields.

This process is unfolding in a context where the expansion of public debt issuance in developed markets coincides with a growing demand for resources to finance investments in artificial intelligence (AI) (Figure 3). As a result, governments and corporations are competing for the same global pool of savings, requiring higher returns to attract capital. In the short term, the AI investment cycle boosts aggregate demand and may require a more restrictive monetary policy to contain inflationary pressures. In the medium term, productivity gains and higher expected returns on invested capital are likely to put upward pressure on long-term interest rates.

In addition, the escalation of conflicts in the Middle East affects energy prices, inflation expectations, and the path of interest rates. In a high public indebtedness context, rising interest expenses widen fiscal deficits and require greater debt issuance to finance them, which, in turn, further increases yields on longer-term government bonds.

Figure 3: Hyperscaler Capex Estimates (USD bn)



Source: BOCOM BBM, BEA, Haver Analytics

Overall, both structural and cyclical factors have contributed to the rise in real interest rates worldwide, and some of these factors do not appear to be transitory. This environment makes the international outlook more challenging for emerging economies and may even limit the scope of the monetary easing cycle currently underway in Brazil.

ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025	2026F	2027F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.3%	1.7%	1.0%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	5.2%	4.5%
Unemployment Rate (eoy, %)	14.2%	11.1%	7.9%	7.4%	6.2%	5.1%	5.5%	6.2%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.0%	13.50%	12.00%
External Accounts								
Trade Balance (US\$ bn)	36	42	52	92	66	60	81	75
Current Account Balance (US\$ bn)	-25	-40	-42	-28	-66	-69	-59	-58
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-3.0%	-2.9%	-2.3%	-2.1%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.5%	-0.5%	-0.3%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	78.7%	83.6%	87.8%

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