

Price Matters

"Everything is worth what its purchaser will pay for it."
Publilius Syrus

Something unusual is happening in the world's largest and most important capital market.

The yield on the ten-year US Treasury recently exceeded 5%, while thirty-year yields moved higher still. These are not extraordinary levels historically but they are occurring at a challenging moment. Investment in artificial intelligence is accelerating, with enormous amounts of capital being committed to data centres, electricity generation and related infrastructure. At the same time, the US government must finance large budget deficits and refinance a growing stock of debt at considerably higher interest rates.

Economist Mohamed El-Erian offered a noteworthy interpretation of this development. Rather than viewing higher bond yields as a financial "fever" requiring treatment, he suggested thinking of them as a controlled forest burn. The bond market may simply be doing what markets are supposed to do: adjusting the price of capital to reflect competing demands upon it.¹

We tend to think of interest rates primarily in terms of what they cost us. But an interest rate is also a price. It helps determine how savings are allocated.

And the competition for those savings is becoming extraordinary. Governments, technology companies, utilities, manufacturers and households are all

bidding for capital. They simply cannot all have it at yesterday's price.

Former money manager Mickey Maini approaches the issue from a different perspective in *The Entropy Trap*. His central observation is that complex systems require resources simply to maintain themselves. Debt must be refinanced. Infrastructure must be maintained. Social commitments must be funded. And interventions intended to preserve stability can introduce even more complexity.²

Maini describes the point at which maintaining the existing system consumes progressively greater resources as an 'entropy trap'. Prosperous societies accumulate complexity. Complexity requires maintenance. Maintenance requires capital. And capital is never unlimited.

America illustrates the challenge particularly well. Immense federal deficits require continual financing, while low-cost debt is increasingly being refinanced at higher rates, pushing government interest expenses higher.

Meanwhile, the private economy is demanding vast quantities of capital to build the next generation of productive infrastructure. Artificial intelligence is increasingly a physical capital story. It requires semiconductors, data centres, cooling systems, transmission networks and extraordinary quantities of electricity. The International Energy Agency esti-

mates that global electricity consumption by data centres could roughly double between 2025 and 2030.³

The opportunity may be immense. So is the bill.

America is attempting to finance tomorrow while continuing to pay for yesterday.

Maini describes this tension using two clocks. The "machine clock" measures how quickly artificial intelligence produces meaningful productivity improvements. If businesses can produce more with fewer resources, stronger economic growth could eventually make today's debt burden more manageable. The "money clock" is less patient. Debt matures, interest must be paid and investors eventually expect a return on their capital.

This creates an important question: can tomorrow's productivity arrive quickly enough to justify the enormous capital being committed today?

Price still matters.

Higher interest rates impose real costs but they also perform an essential economic function: they ration capital. When money costs very little, marginal investments can survive, weak companies can refinance and speculative projects appear viable. When capital becomes more expensive, the arithmetic becomes less forgiving.

Price Matters (cont'd)

The world has not run out of money. What may be scarce is capital available at yesterday's price.

There is another change occurring at the margins. China has reduced its reported Treasury holdings by roughly half from their 2013 peak, Russia has largely exited the market, and several countries are encouraging greater use of local currencies in international trade. None yet represents a credible replacement for the US dollar, which remains dominant in global reserves, trade and finance. But the direction matters. At a time when America needs to attract more capital, some traditional foreign creditors are becoming less automatic.

This competition for global capital can also be seen in Japan. Long a major exporter of savings, Japan is experiencing its highest interest rates in decades while contending with a weakening yen. As Japanese yields become more attractive at home, some capital that historically flowed overseas may have less reason to leave. America must therefore not only attract domestic savings; it must remain sufficiently attractive to the world's other large pools of capital.

There may, however, be a new source of demand emerging for part of the Treasury market: stablecoins.

Stablecoins are digital tokens designed

to maintain a stable value, typically one-for-one with the US dollar, and can provide a rapid medium of exchange on blockchain networks. Dollar stablecoins are increasingly backed by highly liquid reserves, including US Treasury bills. Treasury Secretary Scott Bessent has encouraged this development, arguing that a growing stablecoin market could increase demand for T-bills while reinforcing the dollar's international role.⁴

If dollar-based stablecoins become widely used internationally, someone holding digital dollars elsewhere in the world could indirectly become a financier of the US government. An innovation in payments could therefore become a new distribution channel for American government debt.

But stablecoins should not be mistaken for a solution to America's fiscal imbalance. They may make government debt easier to finance at the margin without making the underlying fiscal position healthier.

There is an important difference between financing a debt problem and solving one.

For investors, this creates a more discerning environment. Companies capable of financing their own growth have an advantage over those dependent upon capital markets. Businesses earning high returns on invested capital can continue creating value when financing becomes expensive. Strong balance sheets provide flexibility when weaker competitors retrench.

A 5% government bond changes the arithmetic of every investment competing against it. Equities must offer sufficient prospective returns to compensate for greater uncertainty. Capital-intensive projects must clear higher hurdles. Valuations based upon distant profits become more demanding.

None of this necessarily makes the investment landscape worse. In some

respects, it may make it healthier.

Capital is supposed to discriminate. It should migrate towards businesses and projects capable of putting it to productive use and away from those that survive principally because financing is cheap.

There is also an intriguing possibility: AI is consuming enormous resources because investors believe it may eventually allow economies to produce considerably more with considerably less. If that promise is realised, today's extraordinary investment may help generate tomorrow's productivity.

Whether it does so — and whether investors earn adequate returns along the way — will depend upon the price paid and the economics ultimately produced.

These competing demands suggest that the cost of capital may remain elevated. Governments are financing the obligations of the past. Businesses are striving to build the infrastructure of the future. Between them stands the capital market, continually deciding what money should cost and where it should go.

For investors, that is not merely a source of risk.

It is also where opportunity begins.

Sources:

1. Mohamed El-Erian, "Bond Markets Aren't Just Running a Temperature", *The Economist*, 14 September 2026.
2. Mickey M. Maini, *The Entropy Trap: What Physics Knows That Markets Don't*, *The Solstice Laboratory*, 2026.
3. International Energy Agency, *Key Questions on Energy and AI*, 2026.
4. US Department of the Treasury, remarks by Treasury Secretary Scott Bessent before the Treasury Market Conference, 12 November 2025.
5. Chart this page, "Soaring Bond Yields", *The Economist*, 16 September 2026

