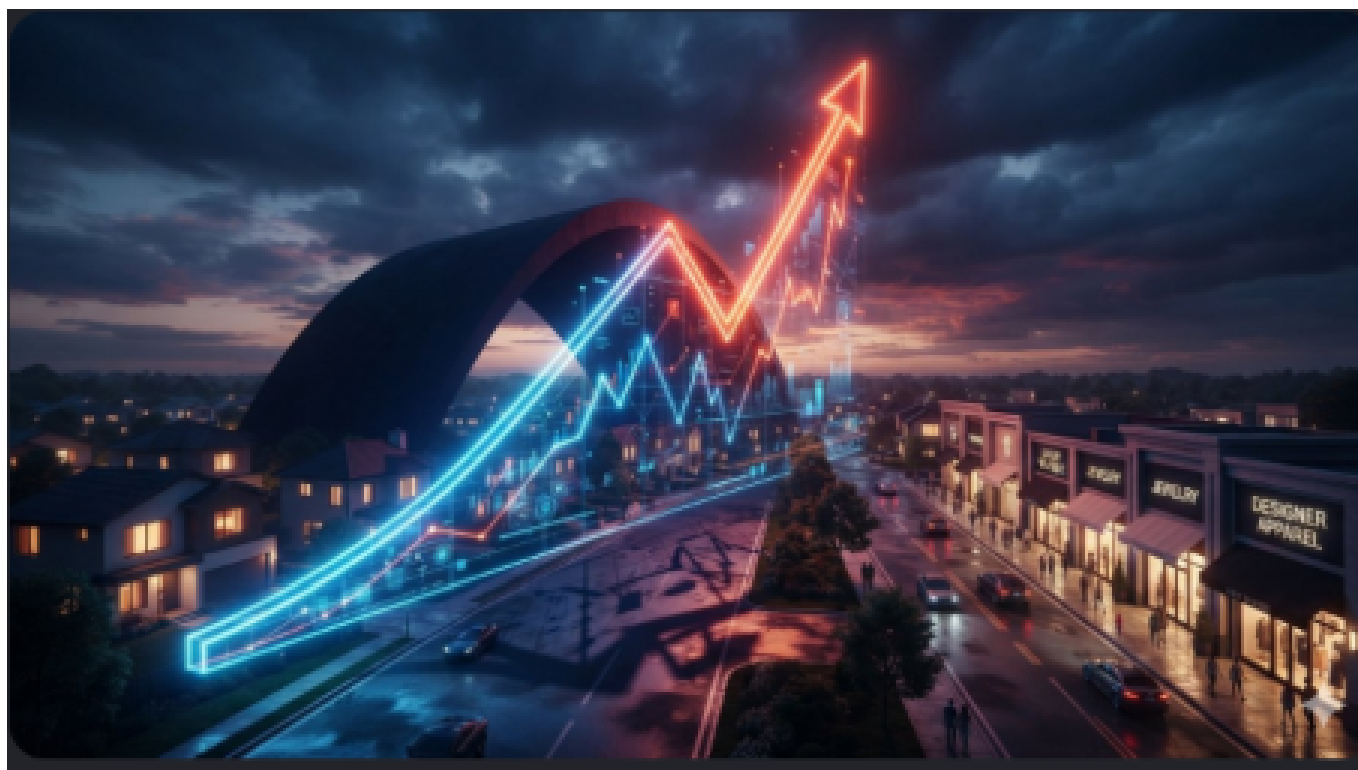


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When Risk-Free Pays 5%:

The world suddenly has a much higher hurdle rate.

By **Manasee Kurlekar** | October 3, 2026



Something important happens when the supposedly boring US Treasury market starts offering returns above 5%.

The benchmark 10-year Treasury yield reached **5.342% on October 1, its highest level since 2002**, after the biggest quarterly rise in the yield this century. The move has been

associated with persistent inflation pressures, elevated energy costs, stronger economic activity and extraordinarily heavy capital demand generated partly by the AI and data-centre investment boom.

There is also the sheer competition for money.

Governments need enormous amounts of capital. AI companies and hyperscalers need enormous amounts of capital. Energy systems, defence, infrastructure and data centres all need enormous amounts of capital. Capital, consequently, is becoming more expensive. And the significance of that change is easy to underestimate.

For much of the post-financial-crisis era, the investing world operated on the assumption that safe money earned very little. When government bonds yielded 1%, 2% or 3%, investors were pushed outward along the risk curve in search of returns. At 5%-plus, that equation looks very different. The question for almost every asset becomes: **Why take this risk when the benchmark alternative already pays more than 5%?**

That question is beginning to travel through the economy. Ironically, AI is appearing on **both sides of the bond-market equation.**

The enormous investment boom in data centres, chips, electricity generation and computing infrastructure is supporting economic growth and creating additional demand for capital. Reuters notes that the AI and data-centre construction boom has contributed to expectations for stronger growth and higher equilibrium interest rates.

Yet those very higher rates make the long-duration earnings of highly valued technology companies more expensive to own. At a 2% Treasury yield, investors could tolerate extraordinary multiples on the promise of extraordinary future growth.

Above 5%, the future has to deliver rather more quickly.

For smaller businesses, the issue is less theoretical.

Many small and mid-sized companies depend more heavily on debt refinancing and bank credit. For them, higher yields migrate directly into the cost structure. The difference between a company capable of financing itself internally and one that must continuously return to the

capital market therefore becomes increasingly important.

There is another fundamental change.

Government bonds now offer a return that investors once had to seek in corporate debt, property or dividend-paying equities. It does mean that every investment committee allocating money to equities, private markets or property now has a considerably more attractive low-risk alternative sitting beside those assets. The **opportunity cost of taking risk has risen.**

The price of a house may not have changed, The price of *financing the house* has. A mortgage at 4% may face a dramatically different monthly payment than one at 7%-plus.

This creates an unusual form of housing gridlock. Existing homeowners carrying older, cheaper mortgages have little incentive to sell and refinance at today's rates. New buyers struggle to afford today's financing costs. Transaction volumes therefore weaken even if nominal house prices prove stubborn.

The housing market becomes less a simple contest over property prices and more a contest over **access to cheap capital.**

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