

The Twist Isn't the Trade. The Correlation Is.

A STORM assessment of Gavekal's "Are US Long Bonds A Buy?" Parts I–III
for a structural long-duration allocation

THE ANSWER FIRST

No structural overweight. Neutral at the 10-year. Gate the hedge.

1

No outright overweight of the 20–30y.

The long end is cheap in exactly one scenario — 2% convergence — the one Gavekal's own senior partners bet against. The non-supportive ledger scores -18 vs +11.

2

Neutral duration, expressed at the 10-year point.

4.77% is fair on both frameworks' middle (4.5–5.3% scenario band). This is also Gavekal's landing spot; our audit does not overturn it.

3

The long-bond “hedge” is a regime bet — gate it.

Stock-bond correlation is +0.58, the decade's most hostile. Fund a 20–30y sleeve only on two of three gates: Sep 9 op $\geq$ \$8bn, correlation < 0 , breakevens ≤ 2.50 through the FOMC.

SERIES GRADE

74

/ 100

Reporting A- • Mechanism B
Hedge claim C

*One factual error (a “September 31” fiscal
year-end); no fatal ones.*

SITUATION

Three parts, one honest hedge-everything conclusion

PART I • AUG 26**Policy flow**

Two interventions in a month: the Jul 31 yen op (funded via the Fed's repo facility so Japan wouldn't sell treasuries) and the Aug 19 “at least double” buyback — a Treasury Twist, long-end purchases financed with bills. The Fed untwists in the opposite direction (MBS → bills).

PART II • SEP 2**Public capital demand**

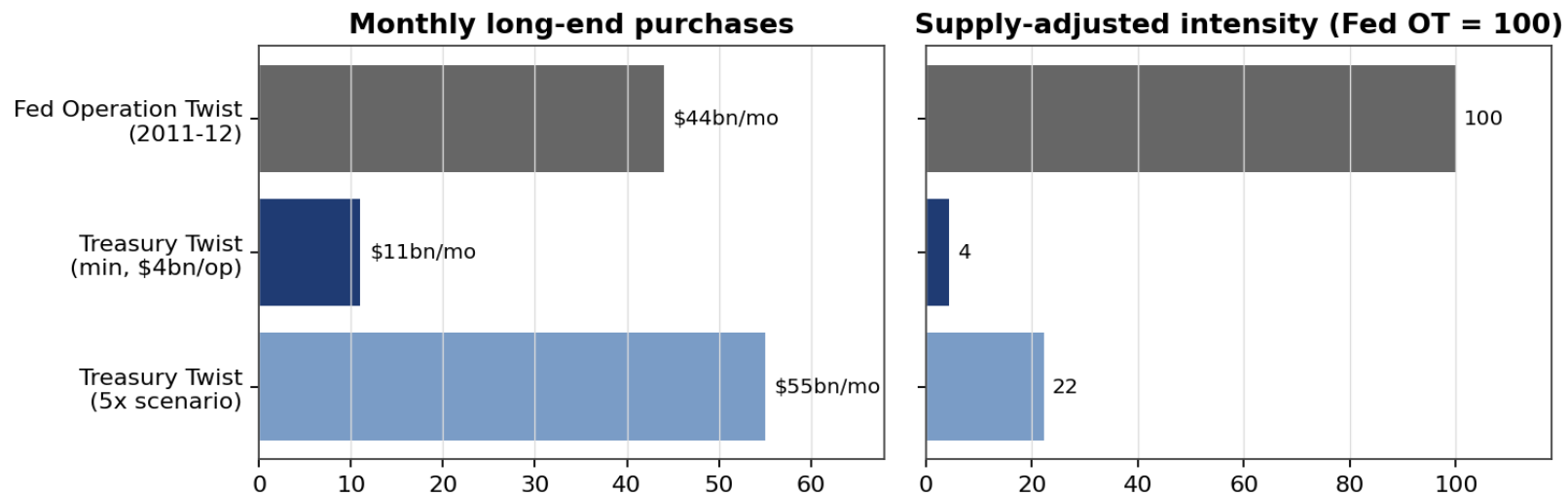
Tariff refunds (\$100bn paid) abate as replacement tariffs restore ~\$200bn annualized revenue; the Iran war (\$37.5bn spent, \$67bn asked) is open-ended. Structurally: interest costs at their early-1990s peak share, and no 1990s discretionary-cut playbook available. Framework = r vs g .

PART III • SEP 7**Private capital demand**

Hyperscaler capex + R&D \$1.1trn annualized, +64% y/y; \$320bn borrowed YTD vs ~\$200bn all 2025; Q1 capital raising \$1.63trn annualized, 3x 2025. Wicksellian spread 60bp above the slowdown threshold. Verdict: too early to overweight; go neutral, treat bonds as the AI-rollover hedge.

TENSION — SCALE

A quarter of Operation Twist, against 5.6x the supply

Exhibit 1 - The Treasury Twist against 5.6x the long-end supply

Flows per Gavekal Part I (\$44bn/mo Fed 2011-12; \$11bn/mo announced minimum; 5x = \$20bn+ offered per op). Long-end stock >10y now 5.6x 2011. AQI calculation.

Flows per Gavekal Part I; supply-adjusted intensity is AQI's calculation. Long-end (>10y) stock is 5.6x its 2011 size.

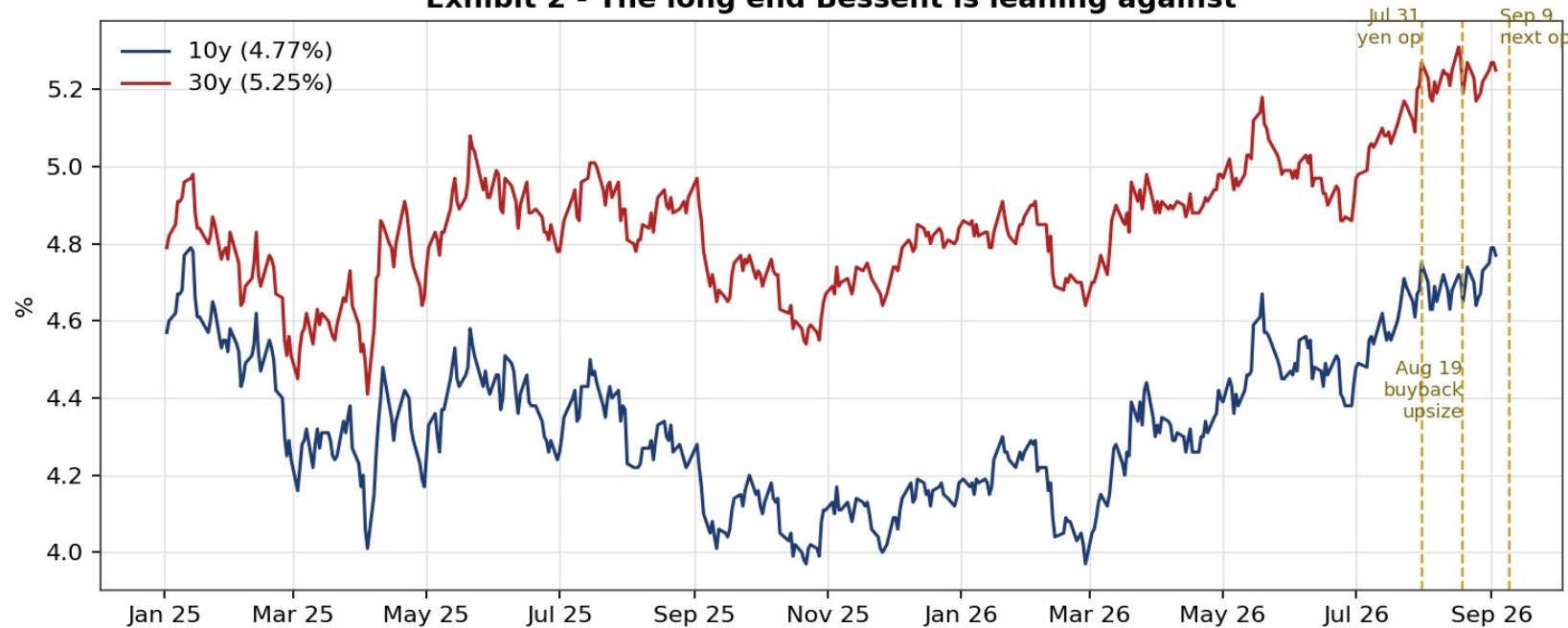
4.5%

of the Fed Twist's per-unit-of-supply intensity at the \$4bn minimum — 22% even at the 5x scenario.

The near-term bullish leg is a discretionary act Bessent hasn't taken yet. That's a gate, not a position.

TENSION — THE TAPE AGREES

The market did this math on day one

Exhibit 2 - The long end Bessent is leaning against

Source: FRED, AlphaQuery Intelligence (DGS10, DGS30, through Sep 2 2026)

30y around the Aug 19 announcement

Aug 18 5.28%

Aug 19 5.19% ← news**Aug 21 5.27%** ← round trip

Two sessions to give the whole move back. The bond market's conclusion — the minimum program is small — verifies on FRED.

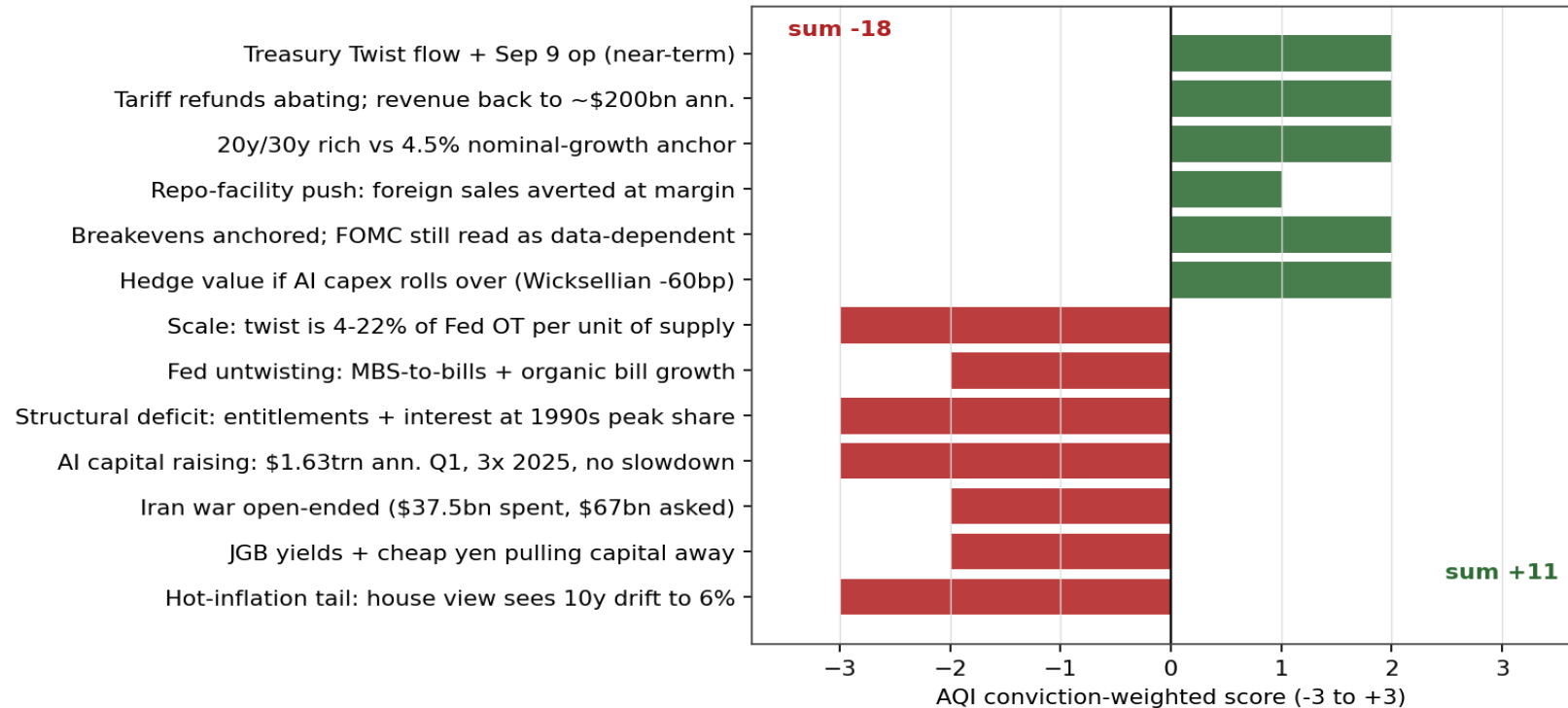
FACT AUDIT

The arithmetic checks. The valuation leg is an assumption.

Claim (Gavekal)	Check	Verdict
Fed OT: \$44bn/mo, \$667bn total (2011–12)	\$400bn announced Sep 2011 + \$267bn Jun 2012 extension	VERIFIES
Treasury Twist $\geq$ \$4bn x 8 ops/qtr $\approx$ \$11bn/mo	Internally consistent; $\sim$ 4.5% of Fed OT per unit of supply (AQI calc)	VERIFIES
Market shrugged at the buyback news	30y: 5.28 $\rightarrow$ 5.19 $\rightarrow$ 5.27 in two sessions (FRED)	VERIFIES
10y breakeven 2.32%, inside 2.10–2.50 band	2.35% Sep 3; 12m range 2.18–2.50 (T10YIE)	VERIFIES
10y “about the right level” on fundamentals	Conditional on 4.5% nominal growth; trailing nominal GDP YoY is 6.6%	CONDITIONAL
Denyer 2% base case vs partners' 6% drift “probable”	Disclosed in Part II — the bear case is the modal house view	DISCLOSED SPLIT
Fiscal year ends “September 31st”	September has 30 days	ERROR (cosmetic)

THE LEDGER

Supportive +11, non-supportive -18: the outright doesn't clear

Exhibit 6 - The ledger: supportive (right) vs non-supportive (left)**+11**

six supportive forces

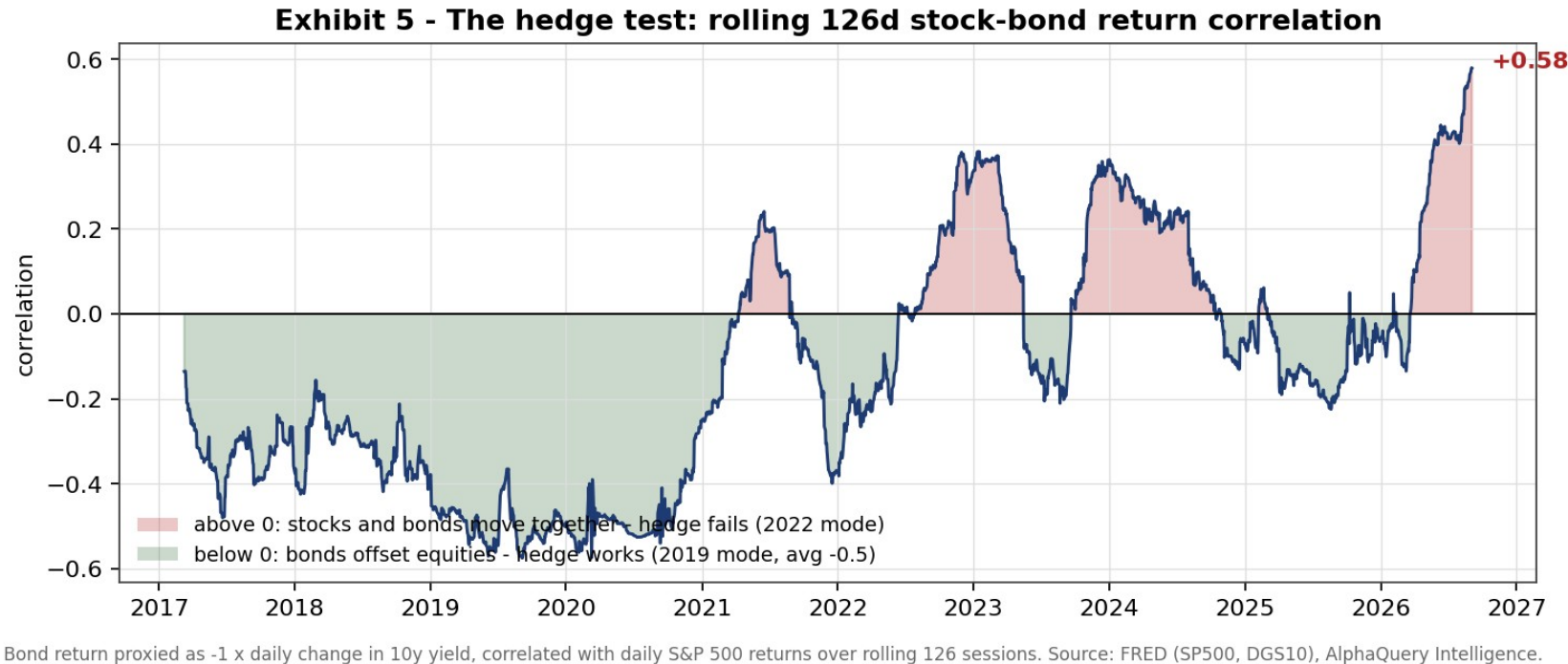
-18

seven against — scale, deficit, AI demand, 6% tail

Scores are AQI judgment weights on the Gavekal Part I-III evidence, not Gavekal's. Net = -7 for an outright structural long.

THE ORIGINAL FINDING

The hedge fails the live data: correlation is +0.58



+0.58

126-day stock-bond return correlation — more hostile than at any point in the 2022 co-drawdown.

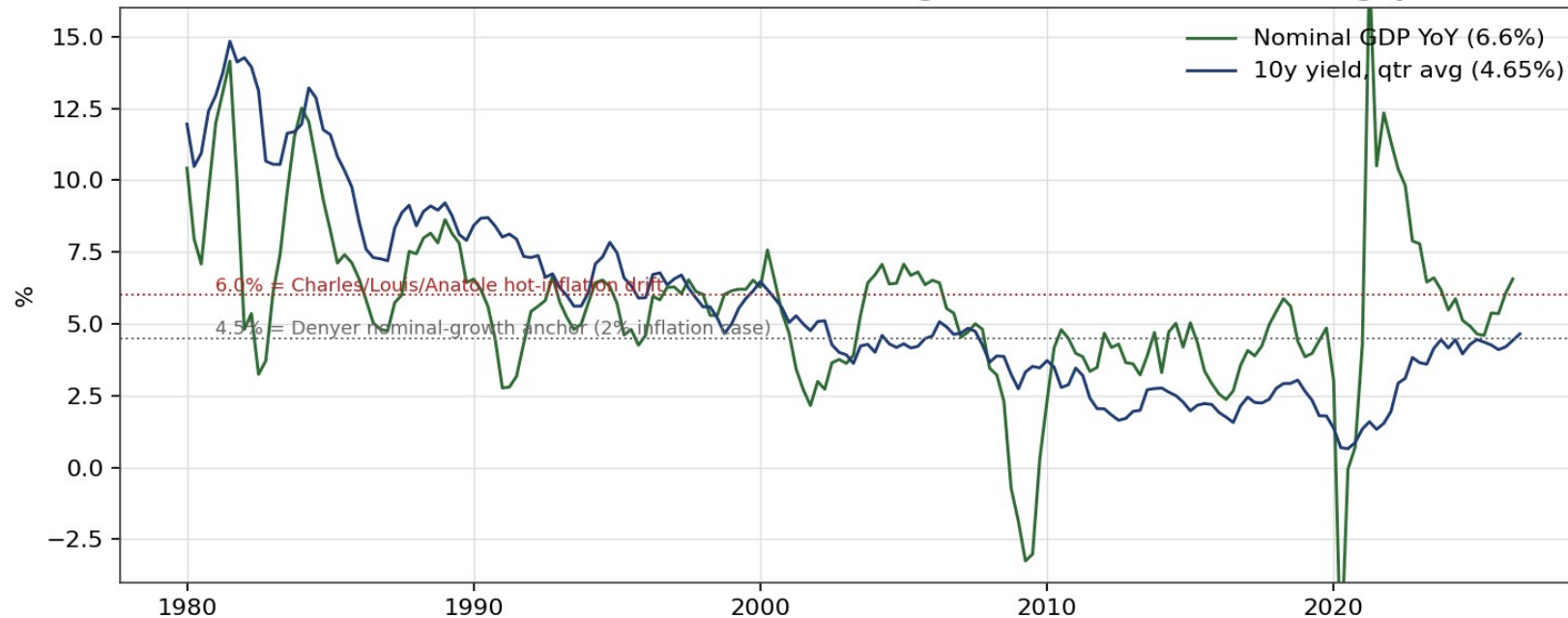
2026 is a rate-shock tape: yields up, stocks and bonds down together. The long bond today is a second equity position wearing a hedge's badge. It pays only if the shock rotates from rates to growth — the AI rollover.

Gavekal defers the correlation evidence to a Part IV that hasn't landed.

TENSION — VALUATION

“30y is cheap” holds in exactly one scenario

Exhibit 4 - The whole framework is r vs g. r has closed most of the gap.



Source: FRED, AlphaQuery Intelligence (GDP, DGS10). Pandemic-quarter GDP swings truncated for scale.

Trailing nominal GDP: 6.6%

Denyer anchor (2% case): 4.5%

Partners' "probable" drift: 6.0%

The 4.5% anchor is an assumption doing all the valuation work — and the modal view of Gavekal's own principals is the 6% path, where the 10y is ~120bp mispriced the other way. Breakevens at 2.35% say the market still prices the 2% case.

OPTIONS (MECE)

Four ways to own duration. Two survive.

A**Structural overweight 20–30y****REJECT**

The “yields too high” valuation trade. Single-scenario position into a –18 ledger, with flow support worth ~4.5% of the 2011 precedent.

B**Neutral duration at the 10y****ADOPT NOW**

Own the tenor both frameworks price as fair (4.77% vs a 4.5–5.3% band); skip the scenario-sensitive very long end.

C**20–30y hedge sleeve vs equities****ADOPT ON GATES**

The correlation-flip trade. Until the regime turns, this line loses on rate shocks exactly when the equity book does.

D**Keep FD-02: long long-end vol****RETAIN**

MOVE ~22nd pctile vs term premium at its 92nd — direction-agnostic and better priced. DUR-01 does not displace it.

RECOMMENDATION

Run B + D today. Arm C on two of three gates.

GATE 1

Sep 9 buyback $\geq$ \$8bn

2x the stated minimum — the observable that separates a cosmetic program from an Operation-Twist-class one. At \$4bn, drop the near-term bullish leg entirely.

GATE 2

126d correlation < 0

Or the Wicksellian spread through its 20-year median, whichever prints first. Either says the shock regime is rotating from rates to growth — the only world where the long bond is a hedge.

GATE 3

Breakevens ≤ 2.50 through the Sep 16 FOMC

Including on a hike. Credibility intact keeps the 6%-drift scenario a tail rather than the path.

Funding schedule: two of three gates → fund the 20–30y sleeve at 10% of the equity book's delta. All three → 20%. Zero or one → neutral 10y only; FD-02 vol stays the sole long-end structural expression.

MECHANICS

Book-consistent execution

Neutral 10y

On-the-run 10y notes or a ZN futures ladder to benchmark-neutral duration. No leverage, no 30y component. An allocation, not a trade — it carries no stop.

Hedge sleeve (when gated in)

Jan-2027 TLT calls rather than cash 30y — while correlation is hostile, defined premium caps the cost of being early. Convert to cash 20–30y only after Gate 2 holds 21 sessions.

Consistency with the live book

10y monthly close > 4.93% already escalates the SPX-02 equity collar. 30y monthly close > 5.40% is the FD-02 escalation level and kills the sleeve — that print means the rate regime is intensifying, not rotating.

Sizing discipline

The sleeve is insurance, not alpha — no Kelly treatment. Tripwires 1–3 (Sep 9 op, Sep 11 Z.1, Sep 16 FOMC) all resolve within seven trading days.

TRIPWIRES

Eight triggers, three inside seven trading days

#	Trigger	Read / Action
1	Sep 9 buyback op ≥ \$8bn	Twist-class program — Gate 1 met; tactical long-end add valid into the op cycle
2	Sep 11 Z.1: Q2 capital raising > \$2trn ann.	AI demand accelerating — ledger deepens; defer Gate 2 expression
3	Sep 16 FOMC hikes, breakevens ≤ 2.50	Real-yield rise, credibility intact — Gate 3 met
4	126d stock-bond correlation crosses below 0	Shock regime rotating — Gate 2 met; fund the hedge sleeve
5	Wicksellian spread below its 20y median	AI-rollover scenario live — hedge and outright cases both improve
6	Iran war resolution	A deficit widener closes — tactical long-end add, independent of gates
7	QRA average maturity of issuance falls (WAM < 5.7y)	Twist is a regime, not an operation — upgrade medium-term bullish weight
8	30y monthly close > 5.40% or breakeven > 2.60%	6%-drift path live — kill the sleeve; FD-02 vol is the only long-end position

The buyer is real. The scale isn't. The correlation isn't either — yet.

Neutral at the 10-year today. FD-02 vol retained. The 20–30y sleeve waits for Sep 9 and the correlation flip — and a 30y monthly close above 5.40 retires the whole idea.