

Monthly Field Guide

Talking Points for Client Conversations

September 2026

Check Out Our New Episodes!



Did You Know?

The Price of Capital

The rise in bond yields may be more than an inflation story. We explore that idea, what a higher cost of capital could mean for investors, and why diversification, valuation, and discipline remain important. Separately, we examine what history suggests about politics and equity market returns.

Academic Perspective

When Concentration Makes Sense

By Meir Statman, Ph.D.

Concentrated portfolios can be risky, but they may also help investors pursue ambitious goals. Behavioral portfolio theory offers a framework for balancing opportunity and financial security.

Appendix

- Disclosures

Did You Know?

The Price of Capital

For much of the post-financial-crisis era, some investors worried that the world had too much capital and too few productive uses for it. Interest rates hovered near historic lows across developed markets, governments borrowed cheaply, and companies could finance ambitious projects at modest cost. An investment challenge of that era was determining how to invest in a world with easy access to capital.

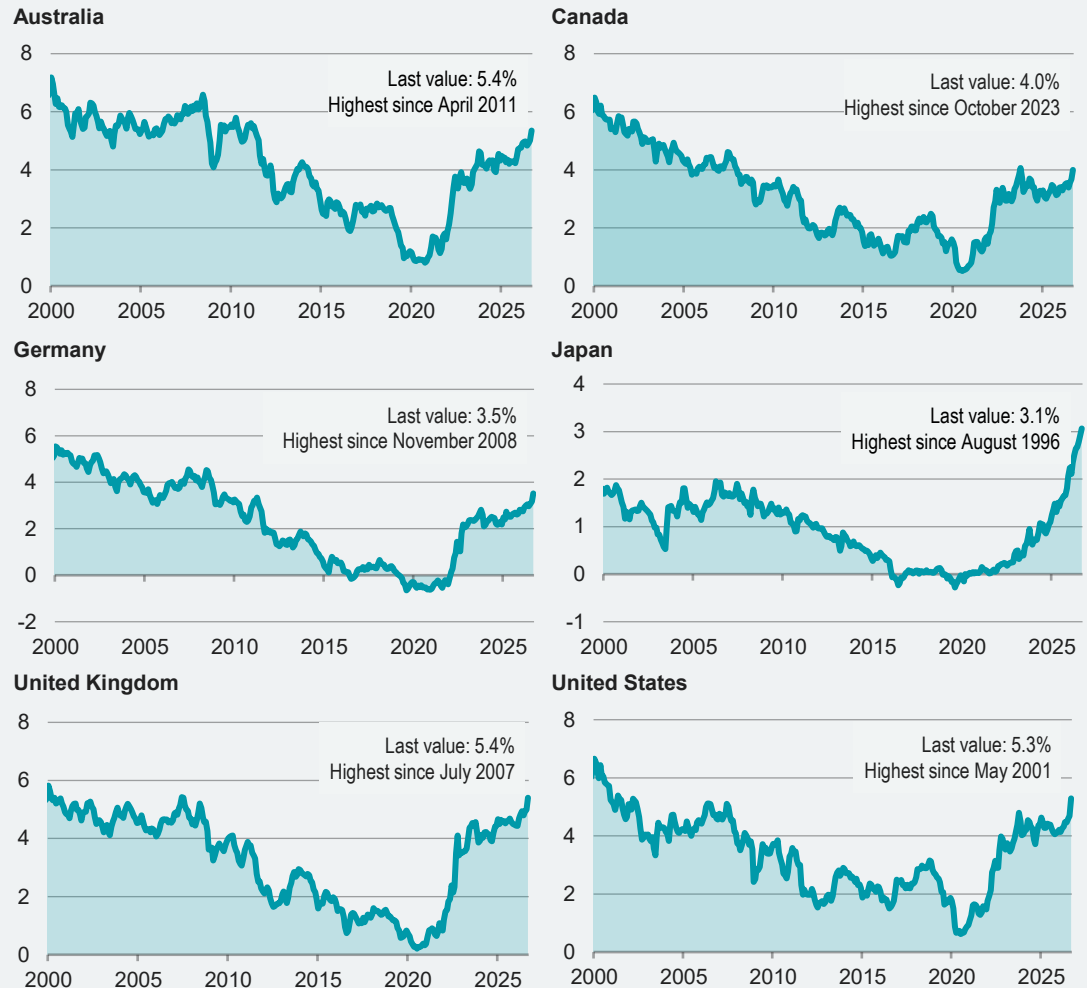
Today, the environment looks different. Government bond yields have risen sharply in recent years and moved higher again over the past month, with several countries approaching or exceeding post-pandemic highs, as shown in **Figure 1**. Inflation and central bank policy have clearly contributed to this move, but they may not be the only factors influencing yields.

At its core, an interest rate is the price of capital, balancing the willingness of investors to supply capital with the demand for investment and financing. Viewed through this lens, the recent rise in yields may represent more than a shift in inflation or monetary policy. It may reflect stronger demand for capital, less willingness to supply that capital, or some combination of the two.

Of course, the future path of yields remains uncertain. What is less uncertain is that a higher cost of capital raises the returns investors require from both fixed income and equities.

Figure 1 | Global Sovereign Bond Yields Are Near Multi-Decade Highs

10-Year Yields (%), January 2000–September 2026



Sources: FactSet and Organisation for Economic Co-operation and Development.

Notes: Data reflect OECD's monthly average 10-year constant maturity government bond yields. Last data point of each series reflect FactSet month-end data.

FOR WHOLESALE USE ONLY/NOT FOR DISTRIBUTION TO THE PUBLIC

The Price of Capital

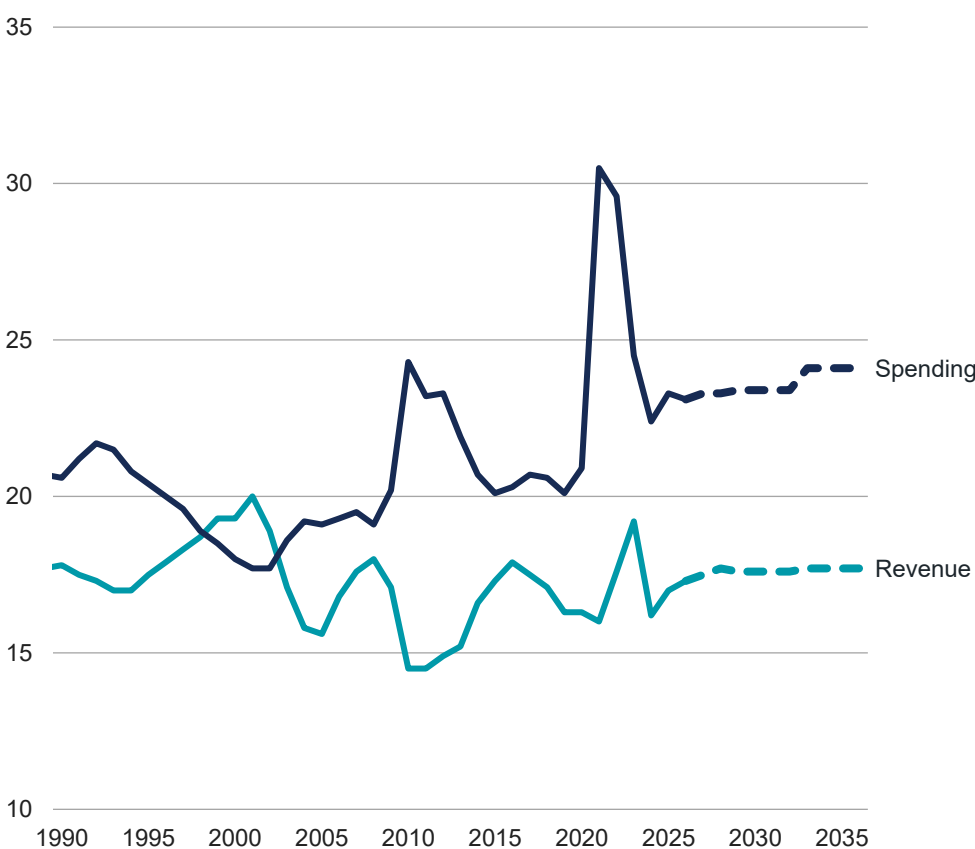
The Competition for Capital

Inflation remains an important part of the discussion surrounding higher yields. One reason inflation does not fully explain the rise in yields is that bond yields reflect both expected inflation and the return investors receive above inflation, known as the real yield. Across many developed markets, much of the recent increase in yields has come from higher real yields rather than higher inflation expectations. While higher energy prices linked to the war in Iran have raised near-term inflation concerns, longer-term inflation expectations have remained relatively stable, suggesting investors continue to view central banks as capable of preventing the energy shock from becoming persistent inflation.

Higher real yields have coincided with elevated government demand for capital. Fiscal deficits remain elevated across much of the developed world, adding to debt burdens that have accumulated over many years. As shown in **Figure 2**, U.S. federal spending exceeds tax revenue by roughly 6% of gross domestic product (GDP) and is projected to remain so for the foreseeable future. Meanwhile, debt issued during years of exceptionally low interest rates is increasingly refinanced at higher borrowing costs, pushing annual interest expense to nearly 4% of GDP. The combination of persistent deficits and rising interest costs has increased governments' need for capital across much of the developed world.

Figure 2 | U.S. Federal Budget Gap Is Expected to Persist

Federal revenue and spending as a percentage of GDP (1990–2035)



Sources: U.S. Office of Management and Budget (OMB) and Congressional Budget Office (CBO).

Notes: Federal revenue and spending are shown as a percentage of U.S. GDP. Historical data through 2025 are from the Office of Management and Budget. Projections for 2026–2035 are from the Congressional Budget Office. Dashed lines indicate projected values.

The Price of Capital

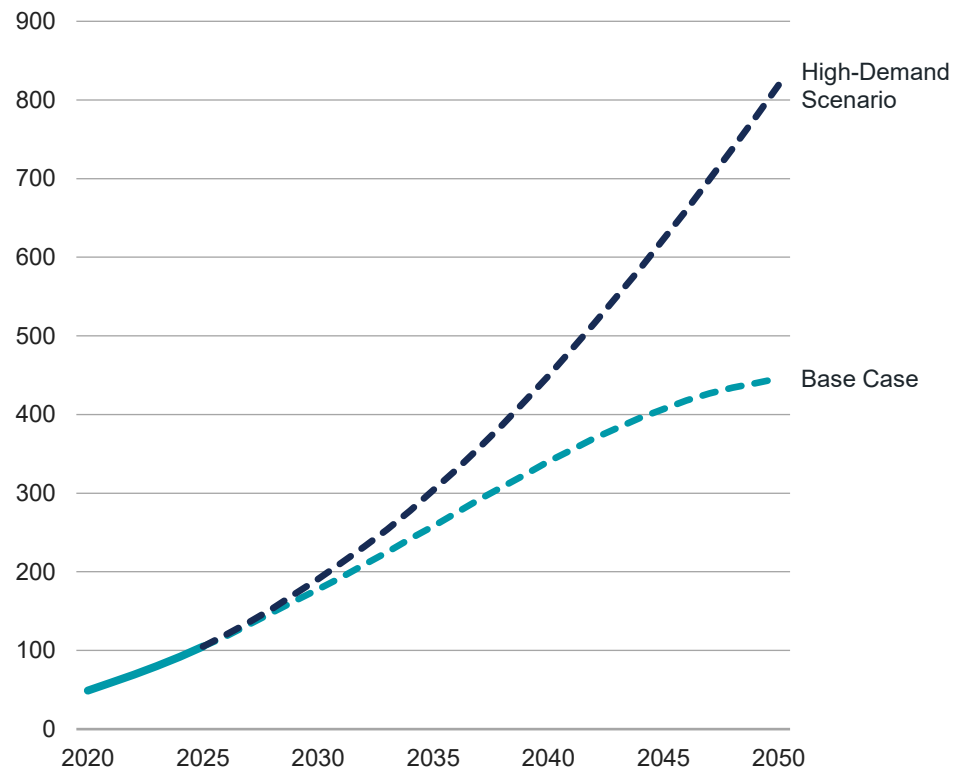
Yields may also be reacting partly to expectations of private-sector demand. Artificial intelligence (AI) has triggered one of the largest technology investment cycles in decades, with its promise to improve productivity. Capital expenditures among five major hyperscalers — Alphabet, Amazon, Meta, Microsoft, and Oracle — have risen dramatically and are projected to continue increasing in the coming years. Aggregate capital expenditures have grown from less than \$100 billion in 2020 to nearly \$700 billion in 2026. Importantly, these figures do not fully capture the scale of the buildout.

A significant increase in AI adoption would require additional investment across large parts of the economy. **Figure 3** illustrates one example, showing that data center electricity consumption is projected to more than double over the next decade under the U.S. government's base-case forecast. Meeting that demand would involve investment in power generation, transmission networks, substations, cooling systems, and other physical infrastructure. These projections illustrate how hyperscaler spending could contribute to a broader demand for capital.

Individually, none of these developments fully explains the rise in yields. Collectively, they illustrate how governments, businesses, and infrastructure projects may make larger claims on global savings at the same time. Because interest rates help balance the supply of savings with the demand for financing, these developments provide a useful framework for understanding the higher cost of capital.

Figure 3 | Data-Center Growth Is Increasing Demand for Power Infrastructure

U.S. commercial data-center server electricity consumption (billion kilowatt-hours, 2020–2050)



Source: U.S. Energy Information Administration.

Notes: Historical and projected U.S. commercial data-center server electricity consumption is shown in billion kilowatt-hours. The dashed lines are projections and represent the reference case and high electricity demand cases. Data are from the Annual Energy Outlook 2026, released in April.

The Price of Capital

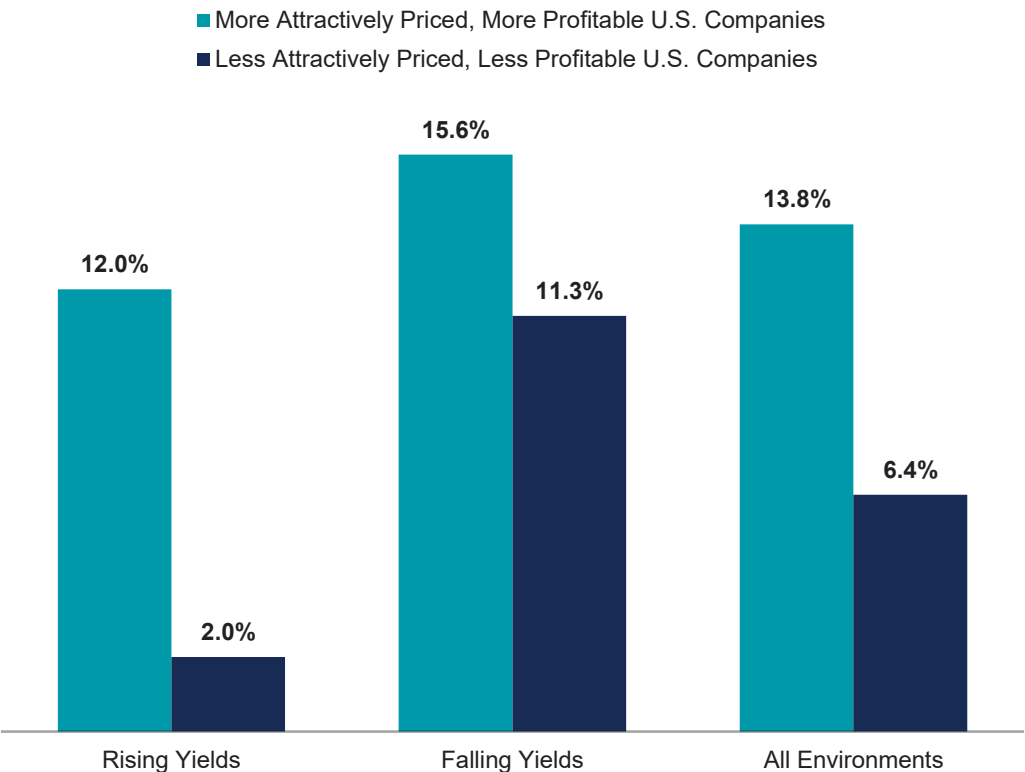
When Capital Matters More

A higher price of capital is not necessarily negative for equity markets. While yields are higher than they were for much of the post-financial-crisis period, many remain below their long-term historical averages, including the benchmark U.S. 10-year Treasury note. Investors have navigated both higher- and lower-rate environments over time, and equity markets have generated substantial long-term growth in both. Historical evidence can nevertheless provide some context for thinking about today's environment.

One perspective on how different types of companies have performed across interest-rate environments is shown in **Figure 4**. It divides the full historical sample into periods of either rising yields or falling yields and compares the returns of more attractively priced, more profitable U.S. companies with those of less attractively priced, less profitable companies. The more profitable, attractively priced group outperformed in both environments, as would be expected, and the return difference was larger when yields rose. These results suggest that disciplined attention to profitability and valuation has been rewarded in both rising- and falling-yield environments.

Figure 4 | Returns to Profitability and Valuation Have Persisted Across Yield Environments

Annualized returns during rising and falling 10-year U.S. Treasury yield environments (July 1963–July 2025)



Sources: Kenneth R. French Data Library, Federal Reserve Bank of St. Louis (FRED), and Avantis Investors calculations.

Notes: Monthly U.S. equity returns are from the Fama-French 5x5 portfolios sorted on book-to-market equity and operating profitability. More Attractively Priced, More Profitable Companies and Less Attractively Priced, Less Profitable Companies are market-cap-weighted composites from the most and least favorable regions of the 5x5 matrix, respectively. The analysis uses the full monthly history available from the Fama-French data library. Yield environments are based on monthly changes in the 10-year U.S. Treasury yield. Returns are annualized. **Past performance is no guarantee of future results.**

The Price of Capital

Fixed-income investors face a different set of considerations. Most bond indexes are weighted by debt outstanding, meaning issuers receive greater benchmark weight as they borrow more. As shown in **Figure 5**, that mechanic has materially changed the composition of the U.S. bond market. In fact, U.S. Treasury securities increased from less than one-quarter of the public investment-grade market in much of the 2000s to nearly one-half today.

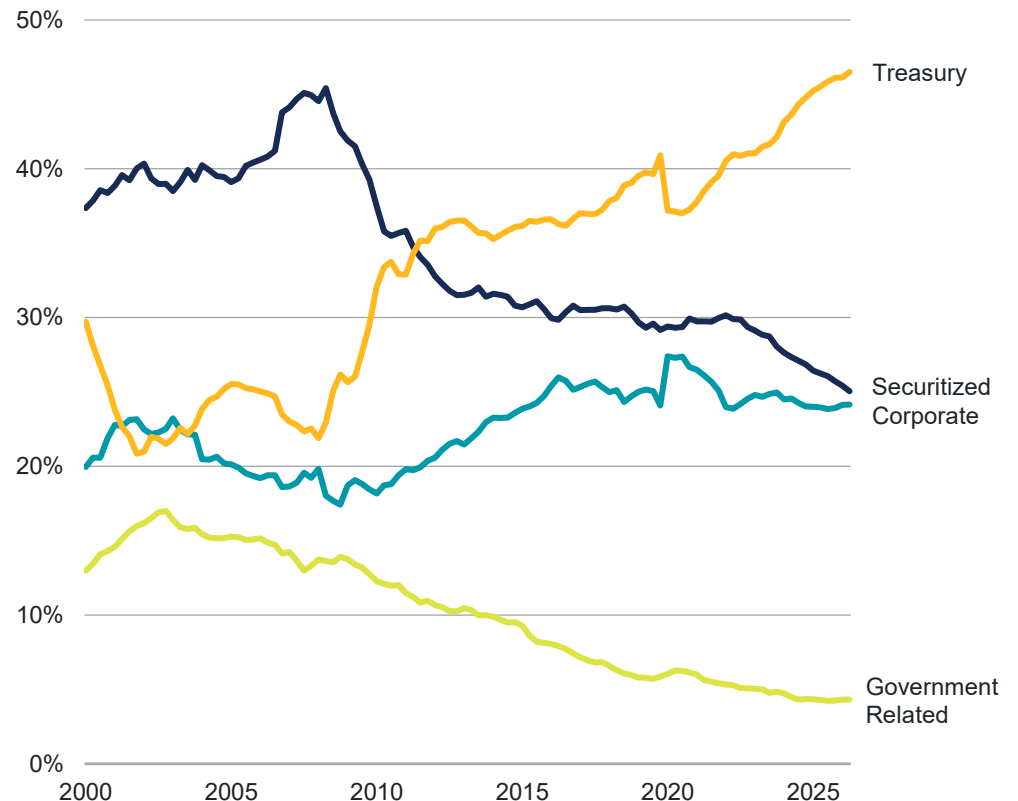
Treasury securities can provide liquidity, diversification, and protection. But their growing weight highlights an important distinction between equity and bond benchmarks. Equity indexes generally allocate more capital to companies that become more valuable. Bond indexes generally allocate more capital to issuers that create more debt. Benchmark composition, therefore, reflects where borrowing has occurred, not necessarily where investors receive the most attractive combination of yield, maturity, credit quality, and price.

A Disciplined Investment Process

Markets involve uncertainty. The challenge is not identifying every winner in advance. It is allocating capital in a way that balances expected returns and risks across a wide range of possible outcomes. A higher cost of capital may influence the opportunity set available to investors, but it does not change the importance of diversification, valuation, and a disciplined investment process. Those principles remain relevant across market environments.

Figure 5 | Government Borrowing Has Reshaped the Bond Market

Sector weights in the Bloomberg U.S. Aggregate Bond Index (2000–2026)



Source: Bloomberg.

Notes: Sector weights are based on market value. The four sub-indexes shown sum to the Bloomberg U.S. Aggregate Bond Index. Government Related includes agency and supranational issuers. Securitized includes mortgage-backed, asset-backed, and commercial mortgage-backed securities.

Did You Know?

Bonus: Politics and Equity Returns

Politics and Equity Returns

While elections often attract significant attention from investors, historical evidence suggests that the political composition of Washington has had a limited relationship with long-term U.S. equity returns. In fact, since 1871, median U.S. equity returns have varied by less than 1 percentage point across periods of unified Republican control of the presidency and Congress (5.8%), divided government (5.9%), and unified Democratic control (5.3%). Although political leadership can change policy, the broad similarity in outcomes across government configurations suggests that equity returns have been driven more by factors such as starting valuations and corporate profitability than by the party in control of Washington.

Positive U.S. Equity Outcomes Have Historically Been Common Across Political Environments

Annualized U.S. equity price returns (%) during congressional terms, grouped by control of the presidency and Congress (1871-2026)



Sources: Robert Shiller Data Library and U.S. House of Representatives: History, Art & Archives.

Notes: Data as of September 30, 2026. Unified Republican and Unified Democratic governments indicate common party control of the Presidency, House, and Senate. Divided government indicates split party control. Returns are annualized and based on Shiller's U.S. stock market price return index. Prior to the 20th Amendment, congressional return periods represent April to March. Following its adoption in 1933, return periods represent February to January. Individual observations represent congressional terms. **Past performance is no guarantee of future results.**

Academic Perspective

When Concentration Makes Sense

A student in my spring 2025 investments course told me, “I’m learning many useful things in your course, but none of them answer my main question.” He had recently moved to the Bay Area after a career in the Navy, found a job and enrolled in our MBA program.

He quickly learned that rent in our area would bite off a big chunk of his paycheck and that house prices were stratospheric, with price tags that looked as though they were quoted in yen. He despaired of buying a house in the Bay Area but aimed to buy one in Wisconsin or upstate New York, where his and his wife’s family lived. However, he had very little money — far less than he needed for a down payment in either place.

As he had learned in my course, a diversified portfolio of stocks and bonds could grow substantially — but over decades. He needed money for a down payment much sooner, so he chose a concentrated portfolio, such as one invested entirely in Bitcoin.

Some buyers of Bitcoin and other cryptocurrencies hope to be billionaires. Others, like my student, aspire to nothing more than making a down payment on a house, paying for a wedding or extinguishing student debt. They know that a portfolio concentrated in Bitcoin is riskier than a diversified portfolio of stocks and bonds, and subject to far larger price swings.

I empathize with my student. A diversified portfolio, such as a total U.S. stock market index fund, would have offered him virtually no chance of achieving his aspiration within his limited time frame.

By contrast, a concentrated portfolio invested entirely in Bitcoin would have offered him a chance, however small, to accumulate enough for a down payment, while exposing him to the risk of losing much of his limited wealth.



Meir Statman, Ph.D.
Consultant to Avantis Investors

Meir Statman is the Glenn Klimek Professor of Finance at Santa Clara University and a consultant to Avantis Investors.

His research focuses on behavioral finance. He attempts to understand how investors and managers make financial decisions and how these decisions are reflected in financial markets.

His latest book, “A Wealth of Well-Being: A Holistic Approach to Behavioral Finance,” was published by Wiley in April 2024.

When Concentration Makes Sense

Two Ways to Think About Risk

I often observe, with obvious exaggeration, that we aspire to reach two goals in life: One is not to be poor, and the other is to be rich. This observation underlies behavioral portfolio theory.

Mean-variance investors view a portfolio as a whole, while behavioral investors see it as a layered pyramid. The bottom “not-poor” layer of the pyramid is intended to support essential financial needs, and the top “be-rich” layer is meant for more ambitious goals. These different perspectives lead to different definitions of risk. Mean-variance investors focus on return variability and generally prefer lower volatility. Behavioral investors focus on the possibility of failing to reach a goal. As a result, they may be willing to take on investments with more volatile returns if those investments offer a greater chance of achieving that goal.

Consider an investor with \$1,000 who needs \$10,000 for a down payment on a house. Anything less would not meet the goal. Suppose one investment offered a 20% chance of growing to \$5,000, while another offered a 10% chance of reaching \$10,000. Mean-variance portfolio theory would generally view the first investment as less risky because its returns are less variable.

Behavioral portfolio theory, however, would reach a different conclusion. Because \$5,000 would still leave the investor short of the goal, the first investment would offer no chance of success. The second investment would offer only a 10% chance of success, but it would at least be capable of reaching the goal. In that sense, the first investment could be considered riskier because it is more likely to fail to meet the goal.

Think again about my student. Most of his not-poor layer consists of his human capital, his ability to earn income through work. He could put his limited savings toward that layer by keeping them in a savings account or investing in a diversified portfolio. Alternatively, he could put them toward his be-rich layer by investing in a concentrated Bitcoin portfolio. That choice would expose him to a greater risk of loss, but it would also offer at least some chance of reaching his down-payment goal, unlike a diversified portfolio, which would be unlikely to do so within his time frame.

The view of portfolios as layered pyramids is not only part of behavioral portfolio theory but also reflected in common investment guidance. One example is the “core and satellite” approach, which combines a diversified core intended to support essential financial goals with a more concentrated satellite designed to pursue aspirational goals.

When Concentration Makes Sense

When Concentration Works and When It Doesn't

Consider older owners of established, profitable businesses whose portfolios are concentrated in those businesses. Their holdings may reflect be-rich aspirations. Their businesses may include car dealerships, franchises, agricultural companies and law firms. These investors' concentrated portfolios aren't a problem to solve if they also have substantial diversified investments to support their not-poor aspirations.

Next, consider relatively young engineers who own portfolios concentrated in technology ventures. These owners have chances of satisfying their be-rich aspirations even if their ventures do not grow into the likes of Apple, Google or Nvidia. Some ventures are fully funded by venture capitalists, leaving owners with possibly ample not-poor portfolio layers. Others are funded by owners who dip into their retirement savings, imperiling both the be-rich and not-poor layers of their portfolios. Yet even concentrated portfolios of the latter kind do not necessarily call for reduced concentration if the owners' human capital is sufficient to replenish their not-poor layers through future employment if the ventures fail.

Concentrated portfolios can be problematic even by the rules of behavioral portfolio theory. This was the situation facing Elizabeth White, a 55-year-old woman who had retired from the World Bank. She invested a substantial portion of her retirement savings into a new retail venture, but the store soon failed.

Unlike my student, White lacked the human capital and years of future employment needed to replenish her not-poor portfolio layer. Investors in circumstances like White's may be better served by preserving the assets that support their not-poor aspirations and seeking other ways to satisfy their be-rich aspirations, perhaps even by buying the occasional lottery ticket.

Many investors with concentrated portfolios, even those with inadequate not-poor layers, are reluctant to sell because they cannot bear the possibility of future regret. Regret is the painful emotion we feel when we realize, in hindsight, that another choice would have led to a better outcome. In this case, it is the regret we feel when discovering that the investment we sold surged soon afterward.

Dollar-cost averaging, the practice of investing or selling in regular increments over time, is a method for reducing regret. Suppose you inherited \$120,000 in stocks from a beloved uncle. You decided to sell them and keep the cash in the not-poor layer of your portfolio. You could sell the stocks today in a lump sum or sell them gradually in 12 equal \$10,000 installments on the 15th of each month over the next year.

Think about the regret associated with selling all \$120,000 of stocks today. How much regret would you feel if stock prices surged tomorrow? That regret would likely be lower if you sold only \$10,000 today, because you could take comfort in the opportunity to sell the next \$10,000 at a higher price.

When Concentration Makes Sense

The 'Right' Question About Concentration

Concentrated wealth portfolios are a problem by the rules of mean-variance portfolio theory, but they can be part of a solution by the rules of behavioral portfolio theory.¹

Concentration is not always an error. Instead, concentration can be a purposeful and sometimes necessary feature of portfolios constructed to serve human aspirations and goals. Behavioral portfolio theory reframes the diversification-versus-concentration debate. The question is not whether concentration is right or wrong in general, but whether it supports be-rich aspirations and goals without putting not-poor ones at risk.

That does not mean concentration is always wise. Its suitability depends on an investor's overall financial situation, especially the adequacy of the not-poor layer and the amount and quality of their human capital. Concentration may make sense for those with sufficient resources or earning power to replenish losses. It can be much more problematic for retirees, those heavily invested in employer stock or investors with limited ability to rebuild wealth after setbacks.

Sound planning balances the benefits of diversification with empathy for the aspirations and goals that lead clients to concentrate their portfolios. Seen through the lens of "not-poor" and "be-rich" aspirations, concentrated positions can be managed thoughtfully to support both financial security and the pursuit of meaningful goals.

¹Hersh Shefrin and Meir Statman, "Behavioral Portfolio Theory," *Journal of Financial & Quantitative Analysis* 35, No. 2 (2000): 127-151.

Appendix

Important Notes for Non-U.S. Investors

No offer of any security is made hereby. This material is provided for informational purposes only and does not constitute a recommendation of any investment strategy or product described herein. This material is directed to professional/institutional clients only and should not be relied upon by retail investors or the public. The content of this document has not been reviewed by any regulatory authority.

The information contained herein must be treated in a confidential manner and may not be reproduced, used or disclosed, in whole or in part, without the prior written consent of American Century.

Disclosure to any persons other than the recipient and its representatives is prohibited. More information is available upon request.

Investors in China: This presentation is being furnished on a “one-on-one” basis for informational and discussion purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any products or services in the People’s Republic of China (excluding the Hong Kong or Macau Special Administrative Regions or Taiwan) (the “PRC”). Further, no institutional or individual investors in the PRC may directly or indirectly purchase any of our products or services or any beneficial interest therein without obtaining all the relevant PRC governmental approvals/licenses (if any), whether statutorily required or otherwise by themselves, and complying with all relevant PRC regulations (if applicable).

Investors in Hong Kong: American Century Investment Management (Asia Pacific), Limited currently holds Type 1 and Type 4 registrations from the Securities and Futures Commission (“SFC”). American Century Investment Management, Inc. is not registered with the SFC.

Investors in Singapore: This presentation material and its contents have not been reviewed by any regulatory authority in Hong Kong or Singapore. American Century Investment Management (Asia Pacific), Limited currently holds Type 1 and Type 4 registrations from the Securities and Futures Commission (“SFC”). American Century Investment Management, Inc. is not registered with the SFC. Neither ACIM (Asia Pacific) or ACIM are registered with the Monetary Authority of Singapore. This presentation material has been prepared for informational purposes only and is not intended as an offer or solicitation for any service or the purchase or sale of any financial instrument.

Investors in S. Korea: American Century Investment Management, Inc. is registered as a Discretionary Investment Manager with the Financial Services Commission.

Investors in Taiwan: American Century Investment Management, Inc. currently is not registered with any Taiwanese entity. All services would be provided on a cross-border basis.

Investors in Thailand: American Century Investment Management, Inc. is not licensed by the Securities and Exchange Commission of Thailand. All services would be provided on a cross-border basis.

Investors in Japan: This material is provided for information purposes only and does not constitute, and should not be construed as, an offer to sell, or a solicitation of an offer to buy, any securities or any provision of advice, services, investment strategy or product described herein. This material is directed to professional clients only and should not be relied upon by retail investors. The content of this document has not been reviewed by any regulatory authority. American Century Investment Management, Inc. is not registered in Japan.

Investors in Australia: American Century Investment Management, Inc. (“ACIM”) (CRD#105778/SEC#801-8174) is a US registered investment adviser pursuant to the Investment Advisers Act of 1940 of the Securities and Exchange Commission. ACIM relies on the Australian Securities & Investment Commission (“ASIC”) relief provided for under Class Order [CO 03/1100] for U.S. SEC-regulated financial service providers in relation to the provision of financial services to Australian clients. ACIM has an Australian affiliate entity, American Century Investment Management (AU) Pty Limited (“American Century”), that holds an Australian Financial Service Licence (Number: 518417) issued by ASIC. This material contained in this document is for information purposes only and should not be construed as an offer or solicitation or recommendation to buy or sell any financial products. The information is directed and available to residents of Australia only deemed to be Wholesale Clients under Section 761G of the Corporations Act of 2001.

Investors in New Zealand: The investment advisory services referred to in this document are, and will be, only provided in New Zealand to persons who are not members of the public for the purposes of Part 4 of the New Zealand Securities Markets Act 1988 and who are (or who become) wholesale clients of American Century Investments for the purposes of the New Zealand Financial Advisers Act 2008. If you do not satisfy this criteria, you should return or destroy this document without reading it.

American Century Investment Management (Asia Pacific), Limited currently holds Type 1 and Type 4 registrations from the Securities and Futures Commission (“SFC”). American Century Investment Management, Inc. is not registered with the SFC.

Portfolio managers are not licensed by Hong Kong Securities and Futures Commission to perform any regulated function in or from Hong Kong. Furthermore, none of the portfolio managers are located in or operate in or from Hong Kong.

This promotion is not intended for public distribution and may only be distributed on a non-public offering basis.