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THE PREHN INSTITUTE | RESEARCH

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GLOBAL MARKETS · RATES & SOVEREIGN DEBT

If You Don't Understand Bonds, You Don't Understand Money

The master switch beneath your mortgage, your savings and every share you own — and why it is being flipped harder than at any time in our lifetimes

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Economist and former investment banker
The Prehn Institute

REPORT SCOPE

Educational explanation of the video.

RATING

None

PRICE TARGET

None

The bond market is larger than the entire global stock market and sets the "risk-free rate" that prices every other asset. As US government debt crosses $40 trillion and interest costs overtake defense spending, the way governments resolve debt — quietly reducing the value of the currency — reaches directly into ordinary savers' pockets.

$40T

US national debt, crossed in August 2026 — with the last trillion added in under 5 months

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About Felix Nikolas Prehn and The Prehn Institute

Felix Nikolas Prehn

Felix Nikolas Prehn is an economist and former investment banker. He writes and lectures on how the financial markets work, with a focus on how ordinary savers can protect what they have built.

The Prehn Institute

Felix Nikolas Prehn is the founder of The Prehn Institute. It publishes research on the financial markets and provides instruction in how they work. It gives no financial advice.

It takes no sponsorships and no endorsements, ever. So its work answers to its readers and to nobody else.

Our work online

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How to use this report.

Read it beside the video. The sections follow the video's information and order. The goal is not to predict the next market move. It is to explain the plumbing — how the bond market quietly controls the value of everything you own.

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BOTTOM LINE

The master switch under everything

Bonds are loans. Their yields set the baseline return every other investment must beat, so when yields move, the price of every risky asset — shares, property, crypto — is quietly repriced, often with no company news at all.

Bond yields move → **The risk-free rate resets** → **Every other asset is repriced**

THE SIZE

The global bond market is worth roughly $161 trillion, larger than the roughly $158 trillion global stock market. It is where the largest, best-informed money on the planet lives.

THE MECHANISM

When rates rise, existing bond prices fall and effective yields rise. That single seesaw is the heartbeat of the global economy.

THE STRAIN

US debt has crossed $40 trillion, and interest now costs more than the entire military — a self-reinforcing spiral of borrowing to pay interest.

THE CONSEQUENCE

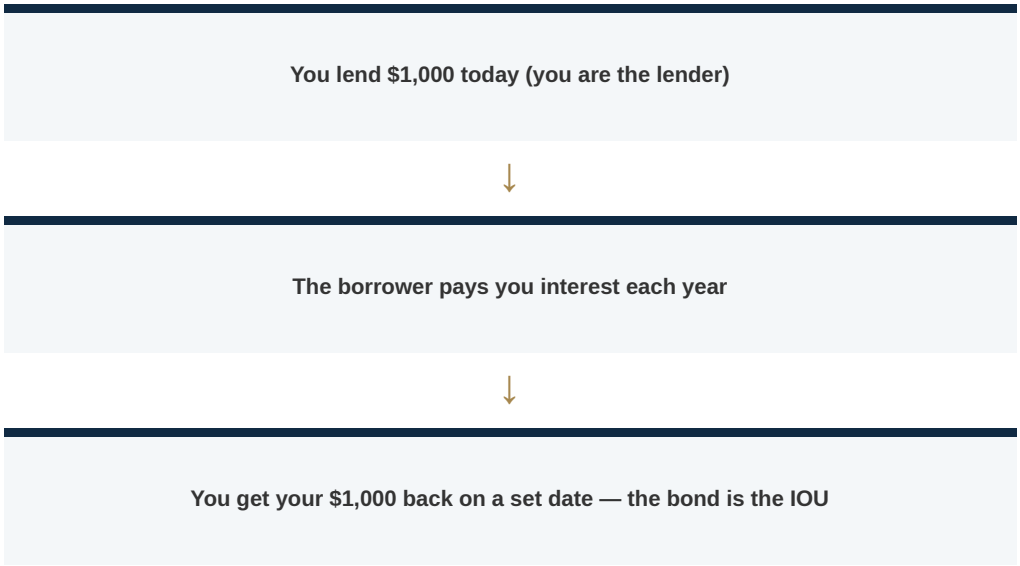
Japan already shows the endgame: a central bank buying up half the national debt with printed money, and the currency quietly weakening. Since 1971 the US dollar has lost roughly 87% of its purchasing power.

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START HERE

What a bond actually is

A bond is just a loan. Instead of borrowing from a bank, a government or company borrows from you, promising interest along the way and your money back on a set date.



WHO BORROWS

When the US government needs money, it sells bonds. Buyers include pension funds, insurers, banks and other countries.

WHY IT MATTERS

Large, cautious institutions do not buy meme stocks with hundreds of billions. They buy bonds — which is why the bond market tends to tell the truth about the economy.

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THE ONE IDEA TO REMEMBER

Price and yield move opposite ways

THE SEESAW

If you own a bond paying 2% and new bonds now pay 5%, nobody wants your old one — so its price falls. As the price falls, the effective yield rises to match the market.

AND IN REVERSE

When investors rush to safety, they bid up bond prices, and yields drop. Price up, yield down.

WHY YOU SHOULD CARE

It flows through to mortgages, car loans, credit cards and the value of shares — the whole economy runs on it.

What happens	Bond price	Yield
Interest rates rise / new bonds pay more	Falls	Rises
Investors panic and rush to safety	Rises	Falls

You do not need the maths. You need the direction. Price and yield are a seesaw — that is the heartbeat of the entire global economy.

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THE THING NOBODY TALKS ABOUT

Bigger than every share on Earth

$161T
global bond market (2025)

$158T
global stock market (2025)

1st
where the biggest money parks

THE SURPRISE

The global bond market is modestly larger than the entire global stock market. The thing nobody discusses at parties is bigger than the thing everybody discusses.

WHY SIZE MEANS POWER

Because so much of the world's cautious capital lives in bonds, the returns bonds offer become the reference point every other asset is measured against.

THE TAKEAWAY

If you only watch the stock market, you are watching the smaller, noisier signal.

Market-size figures: SIFMA Capital Markets Fact Book 2025.

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RISK-FREE RATE & SPREAD

How bonds price everything else

US government bonds are treated as the safest place on Earth, so the interest they pay becomes the "risk-free rate" — the floor every other investment must beat. When that floor rises, money drains out of risky assets.

THE RISK-FREE RATE

If a safe government bond pays 5% for doing nothing, a risky stock must promise much more to be worth it. Raise the floor and risky assets get repriced downward.

THE MYSTERY SOLVED

A red day with no bad company news is often the master switch — yields moved, the risk-free rate ticked up, and every risky asset was quietly repriced.

THE SPREAD

The spread is the extra interest shakier borrowers must pay over the safe government rate. It is small in good times and widens when fear creeps in.

AHEAD OF STOCKS

Widening spreads have flagged nearly every modern crisis weeks or months before the stock market panicked.

Bonds set the risk-free rate; the risk-free rate prices everything; the spread tells you when fear is coming. That is the master switch.

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THE BIGGEST BORROWER ON EARTH

$40 trillion — and the interest is the trap

$40T	~$1T	~$3B
US national debt	annual interest — more than defense	interest per day

THE SPEED

The debt went from $39 trillion in March 2026 to $40 trillion in August 2026 — roughly $117,000 for every American.

THE TRAP

More debt means more interest, which means more borrowing. Much of the debt is short-term and must be rolled over at today's higher rates.

THREE WAYS OUT

Grow fast enough to outrun it (near impossible at this size); default (unthinkable); or inflate it away — reduce the value of the dollar and repay in cheaper money.

WHY IT IS YOURS

Shrinking the value of the dollar to shrink the debt also shrinks the value of your savings. You are part of the bill.

Expense	Scale	Note
Net interest on the debt	~$1 trillion / year	2nd largest federal outlay
National defense	Less than interest	Interest now exceeds it

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THE CANARY IN THE COAL MINE

Japan is a decade ahead on this road

~200%

Japan debt-to-GDP — highest in the developed world

~120%

US debt-to-GDP

~50%

of all JGBs owned by the central bank

HOW IT SURVIVED

When investors would not hold Japan's bonds at low rates, the Bank of Japan created money and bought them. At its peak it owned more than half of all Japanese government bonds; it still holds roughly half.

THE WIDOWMAKER

Shorting Japanese bonds failed so reliably it earned the nickname "the widowmaker."

THE PRICE

The yen weakened, and ordinary Japanese savers watched their spending power quietly erode.

THE PATTERN

First the debt piles up; then interest becomes unpayable; then the central bank prints and buys; then the currency pays the price. Keep your eye on Japan.

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WHERE YOUR PURCHASING POWER GOES

The quiet wealth transfer

When a government resolves its debt by reducing the value of its currency, the cost falls on whoever holds that currency — savers. Economists call it inflation; in practice it is a transfer of wealth from cash-holders to the issuer of the debt.

−87%
US dollar purchasing power lost since 1971

12¢
what a 1971 dollar buys today

1,000+t
gold bought by central banks in 2024

THE PROOF

When the dollar's last link to gold was cut, its slow dilution began. A 1971 dollar now buys roughly 12 cents' worth of goods. The money was not stolen — it was diluted.

WHAT THE PRINTERS DO

Central banks bought over 1,000 tonnes of gold in 2024 (a third straight year above 1,000t) and about 863 tonnes in 2025 — well above the roughly 473-tonne average of the 2010s.

WHY GOLD

No central bank can create more gold with a button. "Follow what can't be printed" is the idea behind the biggest, best-informed money quietly moving.

Purchasing-power figures: US Bureau of Labor Statistics. Central-bank gold: World Gold Council.

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TURN UNDERSTANDING INTO PROCESS

What it means for you

CASH IS NOT SAFE

The number in your account stays still while its purchasing power quietly erodes. Keep an emergency buffer, but understand that excess long-term cash is designed to lose.

GOLD IS INSURANCE

The point of gold is to hold value when paper money does not — the escape hatch civilizations and central banks keep returning to. You buy insurance to be protected, not to get rich.

WATCH THE SWITCH

Rising yields mean pressure on everything risky. Widening spreads mean the bond market is signalling fear — usually before stocks notice.

- ✓ Do I have three to six months of expenses available without selling investments?
- ✓ Am I holding so much long-term cash that inflation is quietly eroding it?
- ✓ Do I own any insurance against currency debasement, such as gold?
- ✓ Am I watching bond yields and credit spreads, not just stock prices?
- ✓ Would a sudden repricing force me to act, or give me choices?

The Prehn Institute

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