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Treasury Yields Hit a 20-Year High. Here's What It Means for Your Closed-End Funds.

'It's a Great Time to Nudge': John Cole Scott on Rotating Into Senior Loans and Munis as the Long-Bond Story Shifts

John Cole Scott
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Chuck Jaffe, in this episode of The NAVigator podcast, interviewed John Cole Scott, President and Chief Investment Officer at CEF Advisors. Scott says three forces — a widening federal deficit, half a trillion dollars of AI-driven hyperscaler bond issuance, and a new, less communicative Fed under Chair Kevin Warsh — collided this week to push long Treasury yields to levels not seen in nearly 20 years. He argues the Treasury's expanded buyback program is more signal than substance, and that the real opportunity is in nudging portfolio weights: leaning into senior loan and national muni closed-end funds while trimming preferred and REIT exposure.

TOPICS DISCUSSED

- Why a $2.1 trillion deficit, half a trillion dollars in AI-driven bond issuance, and a quieter new Fed chair collided this week to push Treasury yields to a nearly 20-year high.
- Why the Treasury doubling its long-bond buyback capacity to $4 billion is more symbolic than market-moving — and likely headed even higher.
- Why senior loan and floating-rate closed-end funds stay a favored, "not a new thesis" play because they're insulated from the long end entirely.
- Why national municipal bond funds are positioned as a direct beneficiary if the Treasury succeeds in capping long yields.
- How elevated volatility is a benign tailwind for covered-call funds, even as option premiums — not rates alone — drive the extra income.
- Why CEF Advisors is underweighting preferred closed-end funds and REITs on their double exposure to muni-like duration and corporate credit spreads.

The discussion is educational in nature and intended to help investors and advisors better understand the tools, trade-offs, and data points involved in evaluating income-focused strategies.

THE CONVERSATION

CHUCK JAFFE

Treasury rates have hit their highest level in nearly 20 years. We're discussing the implications of those higher rates with John Cole Scott, president of CEF Advisors. Now on the Navigator. This is the Navigator, which is all about all-weather active investing and plotting a course to financial success using closed-end funds. The Navigator is brought to you by the Active Investment Company Alliance, a unique industry organization representing the entire closed-end fund industry, from fund sponsors, creators, and managers down to users and investors. In the search for excellence beyond indexing, the Navigator is pointing you in the right directions. Today, we're talking about Treasury yields, which went north of 5.3% this week. After which, the Treasury doubled its buyback capacity, that dropped yields back down a bit. But we're discussing the implications of the whole thing with John Cole Scott, president of CEF Advisors. And if you want to dig in to the firm's data and learn more about the closed-end funds in your portfolio or anything we talk about here, go to CEFData.com. John is also Chairman of the Active Investment Company Alliance, which you can find out about online at AICAlliance.org. John Cole Scott, it's great to have you back on the Navigator.

JOHN COLE SCOTT

Glad to be here, Chuck.

CHUCK JAFFE

John, first things first. Tell us what's happened to have everybody focused on Treasury yields right now, because it's it's not just that the national debt crossed 40 trillion this week, which it did. It's actually a number of things coming together all at once, isn't it? It

JOHN COLE SCOTT

It is. So it's definitely the national debt. You know that the shortfall in fiscal year 2026 is about 2.1 trillion, up from 1.9 trillion at the February estimate, and that really is pushing the long end of the the bond market. But it also is, I mean, the hyperscalers of AI bond issuance is on pace to be more than half a trillion dollars, which is way higher than what it was last year, and even the estimates in the first quarter of 2026. And at the same time, as you know, and all of our listeners do, there is a new Fed chair in Kevin Warsh, and he's really slowed his forward guidance. And we've seen a really interesting split in the dot plots of what we think could happen, where there's some significant opportunities for rates to go up or down, and that that really those three things together all crashed together on Wednesday, really putting a highlight of this really high rates for the U.S. Treasuries in a way that, like you said, we haven't seen since quite a while ago.

CHUCK JAFFE

It was interesting. I did an interview on Money Life this week where I was talking with a bond fund manager about AI's impact on muni bonds, where you've got infrastructure bonds that you wouldn't normally think of a municipal bond as being AI adjacent, and yet it most assuredly is. And so the AI impact is big, but the other stuff-the deficit math and the Fed's lack of guidance-they are, as you pointed out, three different forces. Is one of them having more impact than the others? Is there one that's particularly important to you?

JOHN COLE SCOTT

I feel the biggest chunk of it really is twofold. One is, I don't believe the debt being issued by these investment grade hyper, you know, these volumes are going to go down. And if you are a diversified bond manager, you can't buy all the bonds. You have to pick the ones you want to buy. And I think that's going to be competing in a lot of interesting ways with the perceived value and benefit of a treasury market here in the U.S. and at the same time, I do think that the Fed, it feels like, from our instincts, the Fed is more likely to hold things longer or be forced higher because of things like inflation versus being pushing lower, unless we have a material degradation in the in the economy, which is we suspected that could happen. Really, haven't seen much data support it yet in anything we look at seriously.

CHUCK JAFFE

Well, of course, you're talking about the Fed and the Treasury is what announced the long end buyback program. It's not another round of quantitative easing because that's not something the Treasury does, that's something that the Fed does, but the Treasury buyback program and spending more money on it is a move that's unusual. But is it significant? Like, is it more that it's so out of the ordinary that the market had to respond to it, or is there enough money moving that the math here is actually significant?

JOHN COLE SCOTT

I mean, going from 2 billion to 4 billion, though they use the phrase at least. So my guess was, if we were to revisit this in 60 to 90 days, it's going to be a higher number. And so that leads us to believe that this is not enough to materially change the trajectory of interest rates. What it does signal is that this administration is looking to do what they can to be thoughtful on the rates that's driving things from mortgages to car loans to the you know this the interest rates we'll be paying on our debt at the U.S. level. I do think it's going to need to go much bigger. 2 billion to 4 billion is nothing in the size of this market.

CHUCK JAFFE

Is it more the message that it sends? Like, if they're willing to do this now, they're willing to do more, and as a result of that, it's going to basically put a cap on Treasury yields?

JOHN COLE SCOTT

I think it's going to give them. I believe they'll consider increasing that to higher multiples of double in an attempt to lower the long yield is the way we see it at CEF Advisors, and so I don't think they can seriously change the long term trajectory. They can just keep liquidity in the less liquid parts of the long bond yield curve, so that's able to just be less frustrating to participants that are looking to make changes of those holdings, I do think it's going to be much bigger to do anything material. I don't think they're going to be able to.

CHUCK JAFFE

John, what does this mean for closed-end funds generally, and then beyond what it might do for some closed-end funds in general? What does it do for you as a money manager who uses closed-end funds? Like the secondary question here is: Is this creating any opportunities that are worth pursuing?

JOHN COLE SCOTT

Yeah. So first, I'll say like in the last 35 years or so, we would rate the current steams of the yield curve just under a level of 50, where one is inverted and you know 100 is like it was back in 2011 as the economy was taking off. But where we sit in the not a recovery, it's a rather strong yield curve. And if you remember, as you said, these closing funds they tend they borrow short and they have longer maturities than most other investment structures, especially because of that leverage. So going into the short rates and the long rates is imperative as you decide which sectors to focus on. So I'll break into two pieces: First, relative strength. We believe that this is very benign and another tailwind for senior loan floating rate closing funds, not a new thesis for our firm because they're insulated from the long end story entirely, and the coupons are reset based on whatever happens to short rates. And so, be very positive for that group. What's interesting is we think it's also very positive for national muni bond funds or in general muni funds in general, because they're going to be a direct beneficiary of the treasury trying to cap that long risk. And then because we still don't know exactly what's going to happen when that move goes the other direction, there's such a positive opportunity for those net asset values to be very supportive as rates come down even a little bit, and while I'm thoughtful on where rates can be generally trending higher, there's such a strong focus on lowering them. I don't see much higher levels based on our, of course, crystal ball that is somehow not in the shop today. And the third group is fascinating: is the covered call funds because you want to diversify when you build income portfolios, like we do for our retired clients, the elevated volatility in the market is generally a benign tailwind to that sector in general. And yet, you're going to have this increased premiums to create the cash flows to be more supportive, which are not technically driven by interest rates, but the interest rate volatility is making the option premiums generally more benign and positive for that sector.

CHUCK JAFFE

Is there any reason to look at this story and go, "I want it to be more fully baked before I take this cake and and run with it" Like, how quickly, if you're gonna make any moves in your portfolio, are you gonna make them? Because we're talking about it a couple of days after all of the action and the announcements.

JOHN COLE SCOTT

It is, and closing funds are generally up on Wednesday and down a little bit on Thursday of this week, but nothing material. In our work, it's more the where are you nudging? So where can you take a 4% sector allocation to six and take a six down to four. A lot of our process over the years, you've probably heard us talk about, is that you know we're not drastically changing the portfolio any day or week. It's more planning for what we know could happen, but also understanding we don't know everything that can happen. And so it's a great time to nudge into these funds, also lean into discounts where that's a material factor because discounts can be protective, even with the unknown future. But of course, there's areas you could probably reduce now, and it's probably your next question. If I didn't get to it now, you know we think that we're a little, we should be a little bit underweight preferred closing funds and more the hybrid income because there you kind of get both the the double problem of the. Exposure of the muni-like duration, though it's less, but also you don't get the insulation from the corporate credit spreads and the hyperscaler debt supply. The benefit of a senior loan and a muni bond fund together in the portfolio as balancing the risk, you're getting both challenges in a preferred-focused fund, and so we'd be underweighting preferreds as well as REIT funds because the interest rate sensitivity there, and then tiny sector. But it's worth noting emerging market debt closing funds probably going to have a little bit more headwinds going forward based on what we see.

CHUCK JAFFE

Well, of course, this was a headline this week, but the next headline may be what we get before this month ends because you get the 2026 Jackson Hole Economic Policy Symposium. It's actually hosted by the Federal Reserve Bank of Kansas City. That is coming before the end of this month. Then we get FOMC meetings in September and October. So we're going to be watching rates heading into that news cycle. I mean, you were talking, John, about what you like and what you dislike, but your fixed income money-how are you deploying it now?

JOHN COLE SCOTT

So we really haven't changed our asset allocation at the high level. We're just making those nudges inside of the sector, overweights and underweights, as we plan for new money and reinvesting extra dividends for our clients. Don't take all of it monthly, and it's also it's really important that you can't be ignorant to the discounts that you're seeing because sometimes you get a fund that maybe the NAV is a little riskier, but the discount is tasty, you know, and that's a tale when you can't avoid as a close of an investor. And sometimes the NAV is exactly what you want, but oh my god, I couldn't put you know anyone's money in this investment. So it's never as simple as those headlines, Chuck. But the point today was we're going to see movement in the short end and the long end based on what happens economically, inflation, the Fed meetings, and you're going to want to be able and prepared to then decide as you're sifting your list of closing funds for yourself or your clients which where to lean and what to rotate to, or when it's a good time to reduce and just be cautionary for what could happen next.

CHUCK JAFFE

Yep, and we'll be watching what happens next, and I'm sure we'll be talking about it with you, John. Always great to connect. Thanks so much for for helping us stay on top of the news here.

JOHN COLE SCOTT

Always great to be here, Chuck.

CHUCK JAFFE

The Navigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yeah, that is me. And you can learn more about me and my show, MoneyLifeShow.com, or you can just look for it wherever you find your favorite podcasts. Now, to learn more about closed-end funds, interval funds, and business development companies generally, go to AICAlliance.org. That's the website for the Active Investment Company Alliance. Thanks to my guest John Cole Scott, he's President of CEF Advisors in Richmond, Virginia, and he's the Chairman of the Active Investment Company Alliance. You can learn about the firm and dig into its research and data for yourself at CEFData.com, and John's on X at John Cole Scott. The Navigator podcast is available every Friday. Make sure you don't miss an episode by following or subscribing on your favorite podcast app, and we'll be back next week with more closed-end fun talk. Until then, happy investing, everybody!

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