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Yields Fall As Worries Mount Over Slowdown

BY SAM GOLDFARB

The Trump administration wanted bond yields to fall. They just didn't want it to happen like this.

Treasury yields, which fall when bond prices rise, have plunged over the past two days, reflecting deepening concerns that President Trump's tariff policies could cause significant damage to what has been a strong U.S. economy.

The yield on the benchmark 10-year U.S. Treasury note settled Friday at 3.992%, according to Tradeweb. That was down from around 4.8% in January, before tariff threats started weighing on sentiment, and roughly 4.2% on Wednesday, just ahead of the "Liberation Day" tariff announcement.

Trump's unprecedented challenge to global trade has drawn stocks closer to a bear market and weighed on the price of oil and other commodities.

Investors, meanwhile, have flocked to bonds for the same reasons they often do during times of anxiety: They are safe and benefit when the Federal Reserve cuts interest rates (because that makes their own higher rates more appealing).

In recent months, Treasury Secretary Scott Bessent has outlined the importance of bringing down Treasury yields, reasoning that doing so would lower not only the government's borrowing costs, but also those of businesses and consumers. That is because Treasury yields set a floor on rates on everything from corporate bonds to mortgages.

Bessent, of course, didn't intend to reach this goal by sending the stock market into a tailspin. Instead, the Trump administration figured bond yields would decline as the government reduced its budget deficit, limiting the supply of new bonds entering the market. Increasing domestic oil and gas production would also help by pulling down energy prices and, more generally, inflation, Bessent has said.

That is hardly what's happening. This week's bond rally, in fact, has been particularly noteworthy because it has happened even though investors are worried that Trump's policies could lead to higher inflation and a larger budget deficit.

For weeks, many investors have been hesitant to buy Treasurys because they believed Fed policymakers would remain cautious about cutting rates, with inflation above their 2% target. Tariffs present a conundrum for the central bank, with analysts expecting them to push up inflation in the shortterm but also curb growth should consumers balk at buying more expensive products.

Investors also have speculated that a tariff-driven slowdown would compel Republicans in Congress to pursue a larger package of tax cuts, leading to more government borrowing and higher yields.

For now, those concerns have been brushed aside as many investors focus on the threat of a stumbling economy and the prospect for rate cuts.

"I think the Fed won't be early, but I think they will be aggressive when they go, and in fact the later they are, the more they have to go," said Priya Misra, a fixed-income portfolio manager at J.P. Morgan Asset Management.

Similarly, Misra said, it might be appropriate to re-evaluate "once policymakers panic" and embrace a larger fiscal stimulus. But that is a concern for later, as the market remains in its own panic mode.

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