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BOND YIELDS

Key interest rate falls, but not how Trump wanted

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President Donald Trump campaigned on a promise to bring down interest rates. And he has fulfilled that pledge in one key way, with U.S. government bond yields falling sharply.

But the reason for the drop is an unnerving one: Investors appear to be more on edge about the outlook for the economy.

Treasury Secretary Scott Bessent has said that the Trump administration considers the 10-year Treasury yield a benchmark of its success in lowering rates. The yield tracks the rate of interest the government pays to borrow from investors over 10 years and has dropped since mid-January, to around 4.2% from 4.8%. The decline in February was the steepest in several months.

The administration is targeting the 10-year yield because it underpins borrowing costs on mortgages, credit cards, corporate debt and a host of other rates, making it arguably the most important interest rate in the world. As it drops, that should filter through the economy, making many types of debt cheaper.

Unlike the short-term interest rate that is set by the Federal Reserve, the 10-year yield is a market rate, meaning that nobody has direct control over it. Instead, it reflects investors' views on the economy, inflation, the government's borrowing needs and changes the Fed may make to its rate in the years ahead.

That's why the drop in February is troubling, analysts say. It shows, at least in part, that bond investors are growing gloomy about the economic outlook — and quickly.

"The market is pricing a growth scare," said Blerina Uruci, chief U.S. economist at T. Rowe Price.

A better outcome would be for the declining 10-year yield to reflect slowing inflation, the prospect of more rate cuts by the Fed and a shrinking deficit that would require less government borrowing — all while the economy remains strong.

Instead, inflation expectations have risen this year amid worries that Trump's tariff plans, alongside mass deportations, could reignite price increases throughout the economy. Stubborn inflation means the interest rates controlled by the Fed are likely to stay elevated for longer. Some analysts and investors fear that this could weigh on the economy until it cracks and the central bank is pushed into rapidly lowering rates.