

Pressure from bond market hits a new level

Translate

By Stan Choe
The Associated Press

NEW YORK>> Pressure from the U.S. bond market hit a new level on Wall Street Wednesday after a surprisingly strong report on the economy raised worries about inflation, while oil prices halted their slide. The squeeze caused U.S. stocks to sink.

The S&P 500 fell 0.8% after finishing the prior day just 0.4% below its record set last month. The Dow Jones Industrial Average dropped 352 points, or 0.7%, while the Nasdaq composite sank 1.1% from its own all-time high.

Stocks wilted after the yield on the 10-year Treasury jumped to 5.10% from 4.96% late Tuesday, which is a considerable move for the bond market. High yields undercut prices for stocks and other investments, while also slowing the economy by making it more expensive for everyone to borrow money.

Wednesday's jump briefly sent the 10-year yield near 5.14%, back to where it was in 2007 before the global financial crisis caused yields to crater. Yields have been climbing since bottoming out in the COVID pandemic, and they've accelerated recently because of worries about high inflation, the U.S. government's heavy debt and other concerns.

Worries about inflation got a jolt Wednesday morning after a preliminary report suggested growth in U.S. business activity surged to its strongest level in more than five years. That's an encouraging signal, to be sure, but it indicates the economy may have plenty of fuel for more inflation.

The report also suggested costs for businesses are leaping at the fastest rate in four years, in part because of more expensive oil, according to Chris Williamson, chief business economist at S&P Global Market Intelligence. That could mean businesses will pass those higher costs onto their customers in coming months.

Oil prices are high because of worries that the war with Iran will keep oil bottled up in the Middle East for a long time.

The price for a barrel of Brent oil to be delivered in November rose 3.9% to \$103.08 on Wednesday. That reversed a decline for Brent, which had been falling since it neared \$110 last week. Talks are continuing with mediators between U.S. and Iranian officials, but nothing concrete has come from it yet.

Brent oil to be delivered in December, where most of the trading in the market has moved, rose 2.8% to \$98.12 per barrel.

Even with its recent decline, the price for a barrel of Brent remains much higher than the roughly \$72 it cost before the war with Iran began.

Inflation has remained so stubbornly high that the Federal Reserve raised its short-term interest rate last week for the first time in three years in hopes of slowing down increases in the cost of living.

Fed Gov. Michael Barr said in a speech on Wednesday that further hikes "are likely to be needed" to get inflation to the Fed's 2% target. Traders now see better than a 50% probability that the Fed will hike its federal funds rate at

each of its next two meetings, in October and December, according to data from CME Group.

'It doesn't make sense to a lot of people to own bonds here,' a CIO said.

A Perfect Storm Is Raging In Bond Market

Treasury yield jumps above 5.1%, its biggest one-day rise in over a year

BY JACK PITCHER AND SAM GOLDFARB

The selloff in the U.S. bond market has been mostly orderly in recent weeks. Then came Wednesday.

In the morning, a normally unremarkable survey on business activity gave the market a jolt, pointing to surprisingly resilient growth and inflationary pressures in the economy. Then the selling compounded, with each development during the day—fighting words from an Iranian official at the U.N., hawkish comments from a Federal Reserve governor and a weak auction of government bonds.

It all added up to a perfect storm that drove the 10-year Treasury yield up by the most in a single session since President Trump's "Liberation Day" tariff rollout rattled markets in April 2025. The 10-year closed at 5.113%, blowing past the recent highs at levels unseen since 2007. Note

From an intractable conflict in Iran to a seemingly indestructible U.S. economy, it just "doesn't make sense to a lot of people to own bonds here," said Christopher Sullivan, chief investment officer at the United Nations Federal Credit Union.

Government bond yields, which rise when bond prices

fall, have been climbing for months and their rise is already rippling throughout the economy, affecting everything from mortgage and creditcard rates to private-equity firms' willingness to make debt-fueled acquisitions. With the midterms fast approaching, Treasury Secretary Scott Bessent has sought to tamp yields down with a buyback program that appears to have done little to change the market's momentum. Note

At the same time, the uptick in yields still doesn't seem like it has done enough to broadly slow the economy. That has only caused yields to rise further, as investors bet that the Fed will have to raise rates even higher than previously anticipated to have any real success in bringing down inflation.

The bad news for bonds started early on Wednesday, when oil prices spiked in European trading. Traders who had hoped for U.S.-Iran diplomacy during the United Nations General Assembly in New York were less-than thrilled with comments from Iran's president, who said his country won't fully open the Strait of Hormuz as long as sanctions remain in place.

Brent crude, the international oil benchmark, reversed recent declines to climb back above \$103 a barrel at the day's highs.

Because a sustained increase in fuel prices could feed into broader inflation, bond yields have been moving closely in line with oil prices in recent months. Note

The U.S. 10-year yield drifted higher early. Then, at 9:45 a.m. in New York, a monthly business survey that is rarely known for moving markets turned heads. Isaac Brook, U.S. rates strategist at RBC Capital Markets, was on a plane about to leave from New York to Minnesota when the headlines broke about the survey, known as the S&P Global Flash U.S. Composite PMI.

The report, based on a survey of services and manufacturing firms, showed businesses growing at the quickest pace in more than five years and the fastest job growth in more than four years.

Brook got a quick glimpse of the market's reaction—a sharp jump in yields on short and longer-duration bonds—before turning his phone onto airplane mode. When he arrived at his destination a few hours later, the strategist said he had "a million"

messages from people asking what was happening.

“It just is so hard for people to be constructive right now,” Brook said. “You can look at the levels and say these are really attractive. But we’ve been playing that game for the past six months, and every time we’ve tried to draw a line in the sand somewhere, it just keeps going.” The Fed last week raised interest rates for the first time in three years and the market is anticipating further increases. That sentiment got further fuel just after 10 a.m. when remarks by Fed governor Michael Barr hit the newswires.

“Inflation is above our 2% target and not clearly trending toward target in a timely way,” Barr said in a speech in Chicago. He noted that risks that could prevent the Fed achieving its inflation target have risen.

The concern among investors is that “the Fed is willing to hike to constrain inflation despite a lot of the pressures coming from supply shocks, which could mean unrelenting hawkishness,” said Dhiraj Narula, U.S. rates strategist at HSBC.

Meanwhile, traders were waiting for the Treasury Department to announce the size of its planned bond buyback operation set for Thursday. That announcement came—\$6 billion—but had little effect on the selloff.

Then at 1 p.m., the federal government’s auction of fresh 5-year Treasury notes was met with weak demand. The notes were sold at a yield well above what traders had anticipated, and bond dealers that are required to bid at auctions were forced to take down an unusually large share, pointing to a lack of interest from other potential buyers.

Investors had little interest buying bonds right when their prices were tumbling. The poor result only caused more alarm, driving yields still higher.

All in, it was the worst day in nearly 18 months for U.S. government bonds. Major stock indexes also slipped but not as far as some traders might have expected on a day when debt benchmarks that affect rates on everything from corporate bonds to mortgages soared.

The S&P 500 dropped 0.8%, the Nasdaq composite retreated 1.1% and the Dow Jones Industrial Average fell 0.7%, or 352 points.

“Risk markets seem to be handling this fairly well. It really seems to be a rate market problem,” said Scott Kimball, chief investment officer for fixed income at Loop Capital Asset Management.

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**10-year Treasury yield
on Wednesday**



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