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Inflation worries are pressing authorities in Japan, too.

Oil Prices Push Global Bond Market Closer to the Edge

Treasury Secretary Scott Bessent has a lot of plates spinning at the moment. Even as he hosts the G-20, he is busy defending his attempts to manage the yen-dollar exchange rate, long-term Treasury yields and a renewed trade war with Canada.

Crucially though, it is the jump in oil prices that is suddenly making that juggling act harder.

Long-term bonds issued by the world's major industrialized nations are slumping. On Tuesday, yields on German, U.K. and Japanese 10-year government bonds hit their highest levels since 2011, 2008 and 1996 respectively. In U.S. trading, the 10-year Treasury yield was up around 0.04 percentage point, hovering at levels rarely seen since the financial crisis.

It is tempting to blame it all on fiscal irresponsibility—and some related trigger like Tokyo's latest budget plan. But the worldwide nature of the selloff points to a global factor like oil prices, not something country-specific. Note

The truth is that years of fiscal stimulus and military spending, following the twin crises of Covid and Russia's invasion of Ukraine, have left major industrialized nations in a weakened fiscal position. And those accumulated deficits were effectively the dry timber that the Iran war now threatens to set ablaze. Note

What was the immediate cause of the latest leg down in bond prices? Clearly it was the renewed hostilities between the U.S. and Iran, which have sent Brent crude oil prices up nearly 6% in two days. That global energy benchmark is now up 56% since the start of the year. Note

This creates policy headaches everywhere. In Europe for instance, data out Tuesday showed eurozone inflation accelerated to 3.3% in August from 2.9% in July. Higher oil prices only exacerbate that trend. Inflation worries are pressing authorities in Japan, too. In a meeting with Japan's central-bank governor and finance minister at the meeting of the Group of 20 advanced and developing economies, Bessent apparently told them that "Japan needs to make clear to the market that it is moving toward higher interest rates and fiscal sustainability," according to Japanese broadcaster NHK. Note

They could have fairly said the same to him about the U.S., of course. But when asked about the Federal Reserve's next move in an interview with CNBC, Bessent commented that central banks don't traditionally raise rates in response to supply shocks absent "second or third-order effects." Note

In fact, and to his credit, Federal Reserve Chairman Kevin Warsh pointed to signs of some such effects in his speech at Jackson Hole last week. Within the basket of goods that make up the Fed's favored inflation measure, 54% of goods prices are up more than 3% from a year earlier, he noted. Note

That is well above a historical average of around 32%. Though Warsh didn't say so explicitly, this looks like an indication that higher energy prices are seeping into broader inflation pressures. Note

As for third-order impacts, at this point the blow to global bond markets from higher inflation fears must already be counted as one such ripple effect. Note

Central bankers can help shore up confidence through responsible tightening. Fiscal consolidation would help, too, though it is much less likely in the foreseeable future. Money

Until the situation in the Persian Gulf is stabilized, however, those efforts might only help at the margins. And the risk will keep rising that Bessent's spinning plates come crashing down.

—*Aaron Back*

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Higher yields aren't yet a crisis. They could be if the pols don't listen.

Spendthrift-

Hurray for the Bond Market

REVIEW & OUTLOOK

Yields on long-dated government bonds are rising across the world, and the reaction among the financial press and talking heads is a mini-panic: Oh no, the debt crisis has finally arrived. The better view is hurray for the bond market, as investors awake at long last from nearly two decades of financial repression. Spendthrift governments might finally have to pay more to borrow and tighten their belts as a result.

The 10-year Treasury note ticked up to 4.8% on Tuesday amid a global bond selloff that sent yields on Japan's 10-year to a three-decade high. The U.S. 30-year bond hit 5.28%, while the U.K.'s 30-year gilt rose to a 28-year high of 5.9%.

At least for the U.S., this is hardly a crisis. A 10-year bond in the 4%-5% range was normal before the financial panic and the pandemic. While rising yields may be painful for governments, and pose risks for overleveraged borrowers, they are healthy for markets because they restore price signals and provide a more accurate measure of credit risk.

Note

After the 2008-09 financial panic, central banks kept interest rates at historically low levels and engaged in quantitative easing by buying long-dated assets, including government bonds and mortgage-backed securities. Outside the U.S. they also bought corporate debt. Inflation remained subdued, which lulled markets and borrowers into thinking that low rates represented the new normal.

Note

Low rates enabled governments to borrow cheaply and pile on debt. Capital allocation in the real economy became distorted, and price signals were suppressed. That's because interest rates on mortgages, student loans, and corporate and municipal bonds are tied to longdated Treasurys. Low rates amounted to a subsidy for profligate governments.

Note

Note

Consider Illinois, which in 2010 issued fiveyear bonds to finance its pensions at a 3.854% rate. "This is a very successful deal for the State of Illinois and the 3.854% rate is proof the State's economy is strong," then Democratic Gov. Pat Quinn declared. No, it was evidence that investors weren't properly pricing credit risk.

Note

Note

California in 2017 issued bonds for its bullet train carrying a 2.193% rate. The train still isn't close to being finished, and it may never be. Colleges took advantage of the uber-low rates to expand their real-estate empires and improve amenities to lure students. Low rates helped fuel an increase in housing prices that is now reducing the available supply of homes as owners feel locked-in by today's higher mortgage rates.

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Pension funds and life insurers with longdated liabilities poured into riskier assets with higher yields to fund future obligations. Bloomberg News reported last week that Le-Bron James borrowed nearly $300 million at a 4.8% rate from a pair of Midwestern life insurers in 2018—when 30-year Treasurys were yielding about 3%—with his bonds not maturing until late 2049.

Note

Yields are now returning to historically normal levels as central banks have increased short-term rates to subdue inflation. New Federal Reserve Chairman Kevin Warsh has said he wants the bond market's signals to inform Fed policy decisions, not vice versa. Rising yields reflect in part expectations that interest rates will stay higher for longer, and that governments will have to issue more debt to finance entitlements for aging populations. Governments are also having to compete in bond markets with AI hyper-scalers.

This transition isn't without financial risk, and some market crack-ups are sure to occur, though who knows where and when. Washing--ton can help put off a doomsday with policies that help economic growth, which doesn't include tax increases or tariffs.

But overall the return to normal debt markets is a good development. U.S. debt held by the public at 100% of GDP is a problem, and on present trend it will get worse. Interest on the debt is now $1 trillion a year, more than the defense budget, and growing. Neither party in Washington is willing to reform the runaway entitlements that are driving the debt.

The bond vigilantes aren't yet in full cry, but their early murmurs are welcome. They are sending a message to Washington and other Western nations to clean up their fiscal acts. Bond investors may be the only people who can force the politicians to pay attention. The real worry is if the politicians don't listen.

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Markets are pricing in rate increases by several central banks.

image

image

Bond Rout Deepens Around Globe

Yields across the world soar in a rebuke to countries' heavy borrowing

By Chelsey Dulaney, Alexander Osipovich and Caitlin McCabe

The global economy has a new challenge to surmount: an unruly bond market that is sending borrowing costs to their highest levels in decades.

A rout in bond markets deepened on Tuesday when Japan's 10-year bond yield touched 3% for the first time since 1996. Markets in other heavily indebted nations had their own superlatives. The U.K's 30-year bond yield hit the highest level since 1998. Bond yields in Germany and France rose to their highest levels in more than a decade. The 10-year U.S. Treasury yield climbed closer to 4.8%, a level last touched in January 2025.

The run-up in interest rates has profound consequences for the global economy, heaping pressure on everyone from home buyers to credit-card holders and especially governments, which have borrowed heavily in recent years.

The bond selloff has been building for weeks and reflects a number of drivers. A jump in oil prices this week after fighting resumed in the Persian Gulf was the latest catalyst. When energy prices rise and feed through to the economy, bond investors demand higher yields to compensate for higher inflation.

Heavily indebted countries— including the U.S.—have been hit hardest. This reflects

Note

investor concerns about a potential debt spiral, in which higher yields drive up the cost of refinancing existing debts, requiring even more borrowing. A flood of bonds issued by U.S. tech companies to pay for the artificial-intelligence boom is also pushing yields higher by eating into demand for government debt, investors said.

The surge in bond yields comes despite efforts by finance ministers to calm the markets while assembled as guests of Treasury Secretary Scott Bessent at the G-20 meeting in Asheville, N.C.

N.B

Stock markets have mostly shrugged off the bond selloff so far, though indexes fell on Tuesday. The Dow Jones Industrial Average declined 0.8%, the S&P 500 retreated 0.7% and the Nasdaq composite lost 1%.

Note

Some are betting that a sustained rise in bond yields could prick what many see as a bubble in AI-driven stocks.

"We're in the danger zone already," said Derek Halpenny, European head of global markets research at MUFG. He said the higher interest rates go, the risk increases of a disruptive stock-market unwind.

Central banks are shifting to a more aggressive approach to fighting inflation as the war in the Middle East drags on and energy prices climb again. Federal Reserve Chairman Kevin Warsh's speech on Friday offered investors the latest evidence that central bankers don't think the battle against inflation is over.

Investors have increased bets that the Fed will raise rates this month—and be joined by several other central banks. Markets are pricing in rate-increases in the coming weeks from the European Central Bank, Bank of Japan and the central banks of Australia and New Zealand. But bond markets aren't waiting for central banks to act.

"The situation in the Middle East remains unresolved and oil prices are creeping back higher, which in turn means that there's a risk that inflation will continue to overshoot central bank targets," said Christopher Iggo, a strategist at BNP Paribas Asset Management. "As a result, central banks may have to raise interest rates."

Global oil prices have climbed about 13% over the past month, sending benchmark Brent crude back above $94 a barrel. Nat u ra l - ga s prices overseas also jumped to multiyear highs as European and Asian buyers scramble for a smaller supply of LNG shipments. Japan's bond market has been swept by one of the most aggressive selloffs this year, with yields on its benchmark 10-year note rising to 3% from around 2% in January. After decades battling deflation, inflation is now on the rise in Japan. The Bank of Japan has been slow to increase rates, which has been weighing on the value of the yen.

Investors believe it will soon pick up the pace of tightening. Bessent on Monday helped reinforce those bets.

what is the right thing

"It's my belief that the Japanese government and the BOJ will do the things that will lead to a stronger yen," Bessent said on CNBC.

Markets now expect the Bank of Japan's rate to end the year at about 1.4%, while three months ago investors expected the central bank to keep its key rate on hold at 1% all year.

Rising borrowing costs are also driving up the cost of refinancing Japan's debt load as Prime Minister Sanae Takaichi boosts spending.

To be sure, the moves in the bond market have been relatively orderly and have yet to trigger a broader selloff in currencies, stocks and other asset classes.

Ben Kizemchuk, a Toronto portfolio manager at Welling--ton- Altus Private Wealth, said Japanese yields are coming into greater alignment with those in the U.S. and Europe.

"It's more like a global repricing of sovereign debt," he said. "Markets are beginning to price in a world where economies are converging."

Note

Rising yields are leading investors like Florian Ielpo, a portfolio manager at Lombard Odier Investment Managers, to rethink their investment strategies that give greater weight to stocks over bonds.

As yields rise, the steady income of bonds becomes more attractive compared with risky stocks. He still prefers stocks for now, but his mind is beginning to change.

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A: BUSINESS
WEDNESDAY, SEPTEMBER 2, 2026

Bond sell-off threatens to squeeze borrowers

By Eshe Nelson
The New York Times

LONDON>> A global sell-off in government bonds intensified Tuesday, pushing borrowing costs in some of the world's largest economies to the highest levels in decades. The moves threaten to ripple through a wide range of debt, including business loans and mortgages for already-stretched consumers.

A combination of factors are prompting investors to demand higher returns to hold government debt: a flood of borrowing by the world's richest nations, expanding budget deficits, persistent inflation, and few signs that countries are able or willing to take steps to improve these conditions.

The yield on 10-year U.S. Treasury notes, perhaps the world's most influential interest rate, reached its highest since January 2025, briefly hitting 4.8%, and the yield on the 30-year bond continued to hover around a two-decade high. Yields move inversely to prices, so the rise in yields reflects a drop in prices.

The United States' rising borrowing costs have set off a battle between Treasury Secretary Scott Bessent and investors, but the factors pushing up bond yields in the United States are also issues in other big markets.

"It's a global story," said Peter Schaffrik, a strategist at RBC Capital Markets in London.

The rise in oil prices since the start of the war in Iran has compounded worries about stubbornly high inflation. Bessent is joining international finance ministers this week in Asheville, N.C., for a Group of 20 meeting, as U.S. foreign policy continues to upend the global economy. On Tuesday, he downplayed the market moves.

"I don't think we're in any kind of dire situation," he said in an interview with Fox Business at the meeting.

This week, the yield on 10-year bonds in Japan climbed above 3% for the first time since 1996; in Britain, they reached their highest level since mid-2007; and in Germany, they hit levels last seen in 2011.

A borrowing binge by technology companies to build artificial intelligence systems is another factor pushing up the costs of all types of debt. Companies have issued billions of dollars in bonds, swamping markets and pulling investors away from government debt. These companies, known as hyperscalers, are also increasingly turning to euro-denominated bonds.

"It's becoming harder and harder to disentangle" all the factors behind the moves in bond markets, said Ed Al-Hussainy, a portfolio manager at Columbia Threadneedle, an investment firm.

Stocks around the world also dropped Tuesday. The S&P 500 fell in New York. Japan's benchmark index, the Nikkei, closed lower, and the Stoxx Europe 600 slipped half a percent.

One of the most pressing and unpredictable drivers of bond market turmoil is the protracted war in Iran. As the United States and Iran renewed attacks recently, the price of oil and natural gas began to climb again. Brent crude, the international oil benchmark, rose Tuesday above $94 a barrel, about 30% higher than prewar levels.

The prices of refined fuels like gasoline and diesel have risen even faster, increasing expectations of higher inflation that could prompt central banks to raise short-term interest rates. Higher fuel prices also add enormous costs to governments in Asia and Europe, which are big energy importers.

Consumer prices in the eurozone rose 3.3% in August compared with a year earlier, the fastest pace of inflation in nearly three years, as energy prices stayed high. The European Central Bank is widely expected to raise interest rates at its policy meeting next week, which would be the second increase since the war in Iran started.

Traders have also increased their bets that the Federal Reserve may raise interest rates at its next meeting this month. Fed Chair Kevin Warsh said last week that the central bank would have "work to do" if price pressures did not ease in a timely fashion. In his most hawkish comments yet, he said responsibility for the long stretch of "sustained, elevated inflation" sat squarely with the central bank. Some of his fellow Fed policymakers have already been pushing to raise rates.

These expectations for higher interest rates are colliding with government debt levels, which in some cases have already reached eye-watering levels.

The United States' gross national debt topped $40 trillion for the first time -Nov last month, or more than 120% of the size of its economy.

In France, public debt exceeded 3.5 trillion euros (about $4 trillion), which is 117% of the size of its economy.

In Japan, the government is spending heavily despite a public debt pile that is more than twice the size of its economy.

In the eyes of investors, many politicians don't appear worried enough about these debt levels. Instead, investors see government plans that are not likely to shrink budget deficits.

And so, with expectations of more borrowing to come, investors are demanding higher returns to hold government bonds.