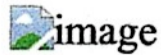


# WSJ Print Edition



## Government Bond Selloff Deepens

Ten-year Treasury yield approaches 4.7%, its highest since January 2025

BY SAM GOLDFARB

A weekslong selloff in government bonds has intensified in recent days, threatening to drive up borrowing costs across the globe and knocking some momentum out of what had been a furious stock rally.

With bond prices sliding, the yield on the 10-year U.S. Treasury note, a key benchmark for mortgage rates and other borrowing costs, reached as high as 4.687% Tuesday, its highest intraday level since January 2025.

The yield on the 30-year U.S. Treasury climbed to a 18year high near 5.2%, helping send the S&P 500 to its first three-day decline since March. The blow has been particularly acute to technology and industrial stocks, with both sectors down more than 1.5% this week.

The main driver of the bond selloff is the U.S. conflict with Iran, which has paralyzed shipping through the Strait of Hormuz and kept oil prices about 60% above where they were before the war started.

Yields on government bonds largely reflect what investors expect interest rates set by central banks to average over the life of a given bond. With elevated energy prices feeding into inflation, investors have dramatically shifted their rate expectations in the U.S.—from anticipating cuts before the war to now betting that the Federal Reserve will raise rates by the end of the year.

That shift mirrors a change in perspective about the conflict itself. Bond yields initially steadied after President

Trump announced a cease-fire with Iran on April 7. For the next few weeks, many remained cautiously optimistic that the two sides could reach a deal that would reopen the strait.

But those hopes have dimmed recently, with both countries seemingly dug into their positions and trying to win a contest of wills—the U.S. countering Iran's Hormuz blockade with its own embargo of Iran's ports and vessels.

Investors are inevitably shaped by recent history. In 2021, demand for Treasuries remained strong—keeping yields near historic lows— even as inflation shot higher, in large part because investors had become accustomed to the era of ultralow interest rates that followed the 2008-09 global financial crisis.

Investors and Wall Street analysts generally couldn't imagine short-term rates rising above 2.5%—their high point of the previous decade.

That set the stage for a historic bond selloff in 2022, when the Fed lifted interest rates from around zero to more than 4%.

Now, investors are dogged by a different experience. Textbook theory would suggest that the Fed wouldn't necessarily have to raise rates in response to a jump in energy prices since those prices are volatile and could reverse quickly. But investors are wary about dismissing inflation as "transitory" or sleeping on the Fed.

"You have PTSD from '22," said Priya Misra, a fixed-income portfolio manager at J.P. Morgan Asset Management, adding that the experience of that year was a major topic of conversation at a recent conference she attended.

The Iran conflict isn't the only factor pushing yields higher.

Last week, yields on longerterm bonds in Japan surged due in part to concerns that the government there will borrow and spend more to blunt the impact of higher energy costs. Yields on U.K. bonds also climbed in response to the growing threat of a leadership challenge to Prime Minister Keir Starmer, with investors worried that a new leader could pursue more expansive fiscal policies.

When yields rise sharply overseas, U.S. yields typically also climb to reflect the fact that investors can now buy higher-yielding bonds elsewhere. The emergence of new fiscal concerns abroad has also revived perennial anxieties that the world is becoming swamped with bonds—thanks largely to massive borrowing by the U.S. government. *Note*

There is a silver lining to the bond selloff: The rise in yields reflects some confidence in the economy—even if it could eventually undermine that outlook by lifting borrowing costs.

Since the start of the Iran conflict, one argument for holding on to Treasuries has been that the increase in energy prices and borrowing costs would lead to "demand destruction"—with consumers cutting back on spending and businesses following suit. *Note*

That in turn could push the Fed back in the direction of cutting rates, rather than raising them. *Note*

So far, though, economic data have been solid, providing space for yields to keep rising. The most recent jobs report showed that U.S. employers added 115,000 jobs in April, well above what economists had expected. The unemployment rate also held steady at 4.3%, down from 4.5% in November.

For weeks, rising bond yields have had little impact on U.S. stocks, which have continued to reach records, based in part on the boom in artificial-intelligence investments.

However, the S&P 500 has dropped 2% over the past three trading days, including a 0.7% decline Tuesday. The Dow Jones Industrial Average fell 0.6% Tuesday, while the Nasdaq composite slid 0.8%.

One threat to stocks lies in the shifting nature of the bond selloff.

In April, even as yields climbed on ordinary U.S. Treasuries, they were relatively steady on Treasury inflationprotected securities, or TIPS. That suggested that investors were lifting inflation expectations but not anticipating an increase in inflation-adjusted borrowing costs. *Note*

More recently, though, TIPS yields have surged, a development that can sometimes hurt stocks more than a rise in nominal yields alone. The 10year TIPS yield was 2.165% Tuesday afternoon, according to Tradeweb, up from 1.917% at the end of last month.

## TUESDAY'S MARKETS