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Sell-off raises worries about "safe haven" status

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A sharp sell-off in U.S. government bond markets and the dollar has set off fears about the growing fallout from President Donald Trump's sweeping tariffs, raising questions about what is typically seen as the safest corner for investors during times of turmoil.

Yields on 10-year Treasuries — the benchmark for a wide variety of debt — whipsawed Wednesday after Trump paused the bulk of the levies he had threatened the week before and raised the rates charged on Chinese goods after that country retaliated.

The 10-year bond was trading at 4.37%, slightly lower than earlier in the day but still well above recent levels. Just a few days ago, it had traded below 4%. Yields on the 30-year bond reversed an earlier rise that had lifted it above 5%. It now stands at 4.76%.

Amid the tumult, other markets considered alternative safe havens to the United States have gained. Yields on German government bonds, which serve as the benchmark for the eurozone, fell Wednesday, indicating strong demand. Gold prices rose, too.

The U.S.-centric volatility comes on the heels of investors fleeing riskier assets globally in what some fear had parallels to an episode known as the "dash for cash" during the pandemic, when the Treasury market broke down. The recent moves have upended a long-standing relationship in which the U.S. government bond market serves as a safe harbor during times of stress.

Adding to Wednesday's angst was the fact that the U.S. dollar, which is the world's dominant currency and was largely expected to strengthen as Trump's tariffs came into effect, had instead weakened. It shaved some of those losses after the administration's announcement.

"The global safe-haven status is in question," said Priya Misra, a portfolio manager at JPMorgan Asset Management. "Disorderly moves have happened this week because there is no safe place to hide."

U.S. Treasury Secretary Scott Bessent sought to tamp down concerns Wednesday, attributing the bond market sell-off to investors who bought assets with borrowed money and were now having to cover their losses.

"I believe that there is nothing systemic about this — I think that it is an uncomfortable but normal deleveraging that's going on in the bond market," he said in an interview with Fox Business. Speaking to reporters after the pause was announced, Bessent said financial markets had gotten more "certainty" with the latest announcement.

Traders have pointed to one particular strategy known as the "basis trade" in which hedge funds seek to exploit price differences in the Treasury market by selling futures contracts and buying the comparatively cheap underlying securities. Those bets are often amplified using borrowed money, which can juice returns but also magnify losses if the market shifts in the wrong direction. Back in 2020, that bet blew up, causing dysfunction in the Treasury market that eventually got so extreme it prompted the Fed to take action.

Since that episode, the Fed has established a permanent facility that enables banks and other eligible institutions to swap Treasuries and other government debt for cash, helping to smooth over any liquidity crunches that may arise and, in turn, raising the bar for future interventions.

The scope and scale of Wednesday's moves have been significant enough to raise broader concerns about how foreign investors now perceive the United States in the face of Trump's punishing tariffs. Some countries are seeking to negotiate deals with the United States. But China retaliated Wednesday with an 84% levy on U.S. goods after Trump raised the tariff rate on Chinese goods to 104%.

"Optically, in some countries now you don't want to show an overweight position, or maybe even an equal-weight position, in the U.S.," said Peter Tchir, head of macro strategy at Academy Securities, an investment firm.

In a social media post Wednesday, former U.S. Treasury Secretary Lawrence Summers said the broader sell-off suggested a "generalized aversion to U.S. assets in global financial markets" and warned about the possibility of a "serious financial crisis wholly induced by U.S. government tariff policy."

E.M.

"We are being treated by global financial markets like a problematic emerging market," he wrote.

Jens Nordvig of Exante Data, a research firm, agreed that there was an "E.M.-like" flair to the dollar's gyrations Wednesday as U.S. bonds sold off. As the world's ultimate safe haven, the dollar tends to do best during periods of market turbulence. In recent years, it has also benefited from the strong U.S. economy. Trump's tariffs are expected to dull that sheen, with economists now worried about a recession.

The dollar's recent weakening has also amplified fears about the inflationary impact from tariffs. Trump's top economic advisers have long argued that protectionist policies would cause the dollar to appreciate, helping to offset any corresponding increase in consumer prices.

During his confirmation hearing, Bessent argued the dollar could appreciate 4% in response to a 10% levy. That has not happened, meaning Americans are likely to face the brunt of higher consumer prices.

"U.S. exceptionalism went out of the window a long time ago," Nordvig said. "Now it is a question of if people fear U.S. assets. That's the next phase of it."

Over time, the fear is that policies like the ones that Trump is pursuing will have a lasting impact. "I'm taking a calm view, but I think it could get worse if we don't make some progress here," Jamie Dimon, CEO of JPMorgan, told Fox Business on Wednesday.

"Everything that the administration has done in the recent months seems well calibrated to overturn the supremacy of the dollar," said Steven Kamin, who previously ran the division of international finance at the Fed and is now a senior fellow at the American Enterprise Institute.