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As Bond Market Bemoans Debt, Worries Also Mount Over Growth

BY JASON DOUGLAS

Here's a surprise about the countries at the center of the bond-market selloff: They're all borrowing far less than Uncle Sam. Note

This year, the International Monetary Fund expects Japan to have the smallest budget deficit in the Group of Seven advanced economies for the third year running, at around 2% of gross domestic product.

Excluding interest payments, Italy is headed for a small surplus. The U.K. and France are borrowing more, but the U.S. is in a league of

its own, with a budget deficit forecast by the IMF to reach 7.5% of GDP this year and stay there through 2030. Note

Note Yet the bond market isn't rewarding what would look like --fiscal prudence. Yields are rising across advanced economies, as investors wrestle with resurgent inflation, the possibilities of artificial intelligence, and the debt loads and evolving spending plans of governments facing geopolitical upheaval.

Growth is a key distinction. Note The U.S. is forecast to grow faster than other major economies in the years ahead, propelled by the AI boom emanating from Silicon Valley and robust consumer spending.

Europe, the U.K. and Japan look stuck in lower gears, with forecasts suggesting they will struggle to eke out growth of as little as 1% this year and next, less than half the rate anticipated for the U.S.

Governments are pledging fiscal restraint, but with growth subdued some investors are skeptical they will be able to finance outlays on pensions and new priorities such as defense without more borrowing. For others, rising yields reflect optimism that AI might, in fact, give economies new pep.

Either way, over the long term, economies in Europe and Asia are facing more severe demographic pressures than the U.S. as their workforces age and shrink, further pinching their capacity for growth without some technology- fueled productivity boost. Note

That raises questions about how their economies will generate the income needed to repay hefty debts. Note "It comes back to fiscal sustainability," said Mansoor Mohi-uddin, chief macro strategist at the Bank of Singapore, a private bank.

Bond yields have been creeping up all year as investors digest incoming news about inflation and growth.

The U.S. conflict with Iran has throttled tanker traffic through the Strait of Hormuz, a key conduit for Middle East oil to reach global markets, pushing up prices for oil and gas.

Yields, which move inversely to bond prices, took another lurch higher Tuesday just as finance ministers and central bankers from the world's 20 leading economies were concluding two days of meetings in the U.S.

Many analysts said the spark was renewed hostilities between Washington and Tehran, reinforcing those inflation fears and the related worry that central banks will need to raise interest rates more aggressively to keep price growth on target.

The bond selloff extended into Wednesday, pushing yields on Japan's 10-year bond above 3%, a 30-year high, and the U.S. 10-year note to 4.8%. Benchmark 10-year yields also rose for the U.K., France, Germany, Italy, Australia and Canada. Higher bond yields lift borrowing costs for governments, households and businesses, hitting economic growth.

Some advanced economies' growth prospects look subdued anyway, amplifying investor unease about lending to governments when inflation is quickening. Many are carrying debts that piled up during crises including the pandemic, and most are making new spending commitments rather than tightening their belts.

Note Note

Consider Japan. Though it has a small deficit, Prime Minister Sanae Takaichi has pledged more borrowing and spending to finance investment in Japanese industries and set a temporary sales-tax cut for consumers. The Japanese economy is forecast by the International Monetary Fund to expand just 0.6% this year, compared with 2.3% for the U.S. Overall public debt is the equivalent of around 200% of GDP, the highest among major economies after de-cades of deficit spending to combat deflation.

Japan's population is forecast to shrink 30% over the next 50 years, according to United Nations projections, leaving a dwindling workforce to service debt payments. Yields on Japan's 30-year bonds Wednesday rose close to a record high of 4.2%.

The size of Japan's debt is what concerns investors, said Eiji Ueda, partner and head of Asia-Pacific at Apollo Global Management in Tokyo. "Japan has been low-growth and issuing debt for a very, very long time," he said.

Japan has a bundle of foreign assets that it could call on to finance future spending and pay down debt. Most of that debt is owned by Japanese retirement funds, insurers and other domestic investors.

Note

Indeed, part of Treasury Secretary Scott Bessent's anxiety about Japanese bond yields and weak currency is the risk that better returns could entice Japanese investors to dump U.S. assets and repatriate their funds.

While European governments have struggled to cut welfare, fear of Russia has prodded Germany, France and elsewhere to plan more defense spending, which could boost growth but lift borrowing.

"A combination of potential inflationary pressures, prospects of rising debt levels in advanced economies, and structural factors such as worsening demographics all seem to have coalesced into a perfect storm," said Eswar Prasad, professor of trade policy at Cornell University and a former senior IMF official.

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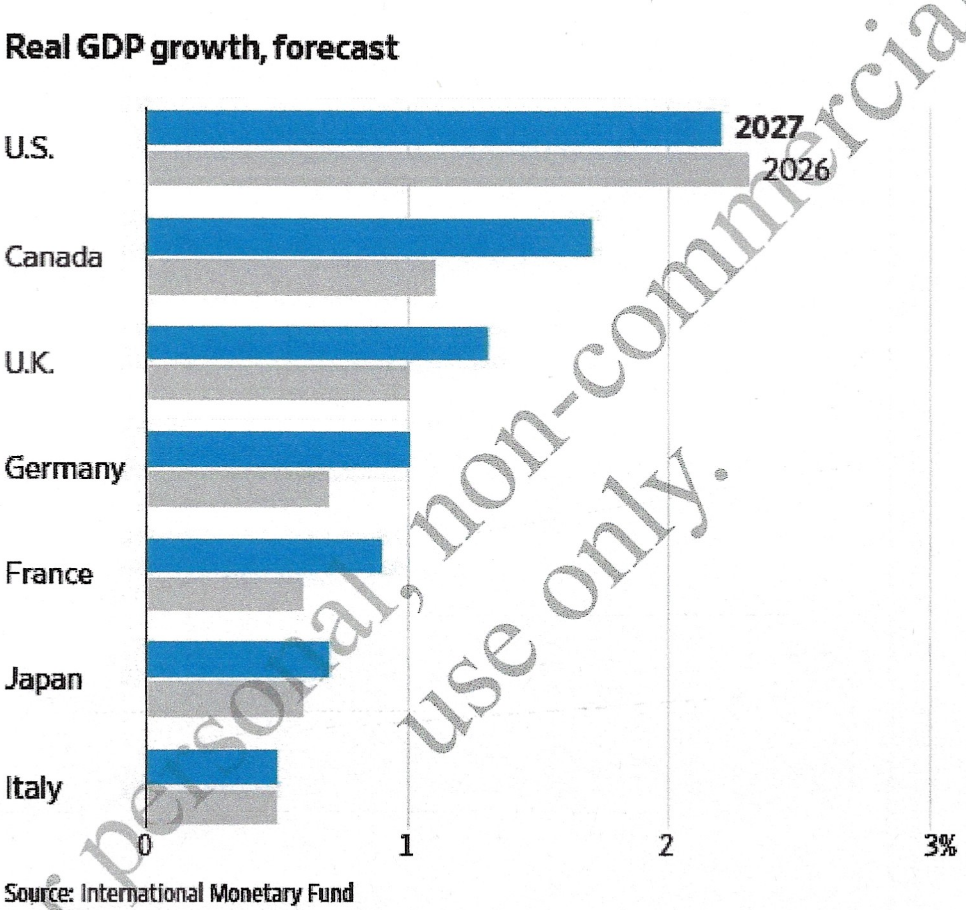

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All eyes turn to the U.S. for leadership at moments like these.

Bond Market Gives World Leaders an 'F'

CAPITAL ACCOUNT

By Greg Ip

If you're a global bond investor, you've had a lot to fret about lately. Government deficits are out of control, inflation is stubborn, and geopolitics, from trade wars to actual wars, threaten to make both worse.

You probably noticed that the government officials who can presumably do something about these things got together this week for a G-20 summit. You may have hoped they'd do something, anything, to put your mind at rest.

Judging by the rise in bond yields this week, you've been disappointed.

The preponderance of attention has been on U.S. Treasury yields, with the 10year hitting 4.8%, the highest of Donald Trump's presidency, this week. But this is not only—or even mostly—a U.S. story. Yields have risen more in Japan, where the 10year yield hit 3% for the first time in 30 years, and just as much in Europe. France's 10year yield, at 4.25%, is up 0.69 percentage point this year. Britain's, at 5.16%, is up 0.68 point.

All, like the U.S., are struggling with energy-induced inflation and gargantuan debts, without the benefit of American tech-led growth. France's minority government is barely capable of passing a budget. Japan's prime minister is using her massive majority to spend more, not less.

Nonetheless, all eyes turn to the U.S. for leadership at moments like these. It has the largest and most important bond market, the most influential central bank and the reserve currency. It started the war with Iran, and can presumably end it. It also hosted this year's G-20.

Treasury Secretary Scott Bessent and his fellow central bankers and finance ministers in Asheville, N.C., aren't personally responsible for rising bond yields. But their proceedings displayed a lack of seriousness about tackling the ultimate cause. -No

"The world is awash in debt…and the only way for us to get out of this is to grow our way out of this," Bessent said.

This doesn't seem like a credible solution. First, growth hasn't come to the rescue yet. U.S. gross domestic product is up 2.1% in the past 12 months, in line with Joe Biden's last year in office. The federal deficit is likely to top 6% of GDP this fiscal year, in line with or higher than in Biden's last full fiscal year.

Second, an AI boom isn't enough. In a recent paper, economists Doug Elmendorf, Karen Dynan and Louise Sheiner examined scenarios in which AI sustainably boosted annual productivity growth by a half to a full percentage point, with differing impacts on employment. In all scenarios, the debt keeps rising as a share of GDP, albeit more slowly. Third, better growth naturally leads to higher rates, which raises the interest bill on the debt. Indeed, that may be a factor now. Heady visions of AI's potential have uncorked a tidal wave of AI-linked borrowing.

Many on Wall Street applauded Bessent's early advocacy of a 3% of GDP deficit target, but neither Trump nor Congress signed on. Unable to change the fundamentals, Bessent is tinkering with the symptoms: a surprise boost to bond buybacks, which he characterized as an effort to influence the speed of yields' movement rather than their destination, or intervening to support the yen, whose drop he feared would roil the bond market. At a meeting with the Bank of Japan's governor, he reiterated support for a stronger yen.

Bessent offered little prospect of relief on those sources of inflation for which the administration is at least partly responsible. As the U.S. resumed bombing Iran, driving up the price of oil, he predicted the Strait of Hormuz would be a "worthless piece of water" in two years. He may be right, but consumers want lower gas prices today. Asked about a trade war with Canada, he ridiculed the idea that Canada was even big enough to wage such a war.

Note

In fairness, headlines about yields hitting new highs were not something that should panic global lead--ers. The actual level of U.S. yields is in the range that prevailed from 2002 to 2006, before the global financial crisis ushered in years of abnormally low inflation and interest rates.

No. 6

But as Ajay Rajadhyaksha of Barclays explains, there are several reasons to worry. He said a key driver of the yield run-up is that investors think short-term interest rates will be higher sustainably in the future. If so, the Fed's current interest rate setting of 3.6% isn't particularly high; it might be the new normal.

Also contributing: a relentless rise in government debt. This has made a relatively modest contribution to yields so far. "The market has not yet demanded a meaningful fiscal risk premium," Rajadhyaksha wrote. "We suspect it eventually will."

At future summits, G-20 leaders may not be able to ignore the bond market as easily as they did this year.

2026-9-3

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How Treasury Selloff Will Affect Consumers

BY NICHOLAS G. MILLER AND JUSTIN LAHART

Worries about a protracted conflict with Iran,① swelling fiscal deficits -2 and rate hikes -3 are rattling global bond markets. The potential effects on the U.S. economy stretch far beyond the Treasury market.

-Note

Treasury yields—the interest rates investors receive for holding U.S. debt—influence how much consumers and businesses pay to borrow money. Lenders use those yields as a benchmark for setting rates on mortgages and auto loans. They also undergird yields on the corporate bonds that companies use for funding.

That means the Treasury selloff risks pushing borrowing costs higher, making it even harder for Americans to afford homes and cars. If the selloff persists, that could start to affect a stock-market rally that has helped support consumer spending and the artificial-intelligence spending boom.

This comes as persistent inflation puts the Federal Reserve under pressure to raise rates for the first time since 2023—a move that would ripple through the economy by raising short-term borrowing costs.

Here's a look at how rising borrowing costs can affect the U.S. economy:

Housing fallout

-Note

With mortgage rates closely tied to the 10-year Treasury yield, the bond selloff is likely to deal another blow to a housing market hobbled by four years of high borrowing costs. Historically low inventory— the result of homeowners staying put to preserve lower mortgage rates— has also boosted asking prices.

Mortgage rates briefly fell below 6% in February, sparking optimism about a potential rebound in home sales. But rates jumped after the U.S. and Israel attacked Iran, turning the market's key spring selling season into a bust.

According to Freddie Mac, 30-year mortgage rates averaged 6.66% last week.

Higher bond yields also hit the rental market, making it costlier for developers to build and pushing landlords to demand higher rents. At the same time, a housing market frozen by high mortgage costs encourages renters who would like to buy to stay put, increasing demand.

There are also broader effects. Americans buy lots of products to outfit new homes, like furniture and appliances, and housing turnover also spurs renovation projects.

The slowdown in such activity has already hit homeimprovement retailers Home Depot and Lowe's.

Pricier rides

The Treasury selloff could also turn into bad news for car buyers, heightening the risk of higher interest rates for auto loans.

Buying a car has become historically expensive, with pandemic-era supply-chain bottlenecks and tariffs driving up prices, while car maintenance and insurance costs have outpaced overall inflation.

Car loans are closely tied to medium-term Treasury yields, such as on the five-year, which has reached its highest level since January 2025.

As interest rates rise, more buyers are taking on longer loans to afford monthly payments, and many car owners now owe more on auto loans than their car is worth.

Stock-market risk

The S&P 500 has risen nearly 20% in the past year, fueled in large part by enthusiasm for artificial intelligence. That has in turn boosted the net worth of people who own stocks and made them more willing to spend.

Note Note balance

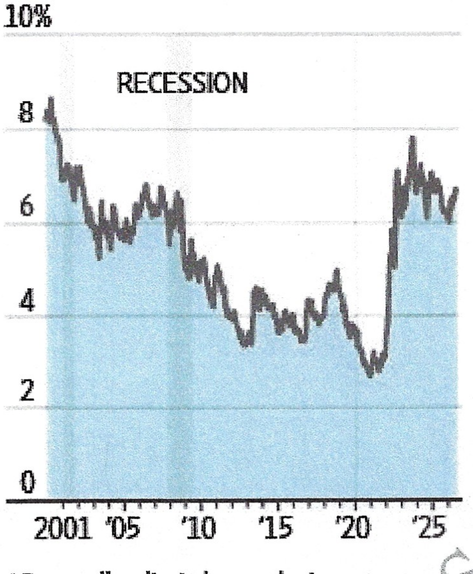
But lofty stock prices are harder to maintain in the face of rising rates. That is partly because higher Treasury yields offer investors the opportunity to generate returns with much lower risk. Also, rising rates increase companies' borrowing costs, making it harder for them to fund operations and investment. Corporate- bond yields have risen sharply this year.

opportunity

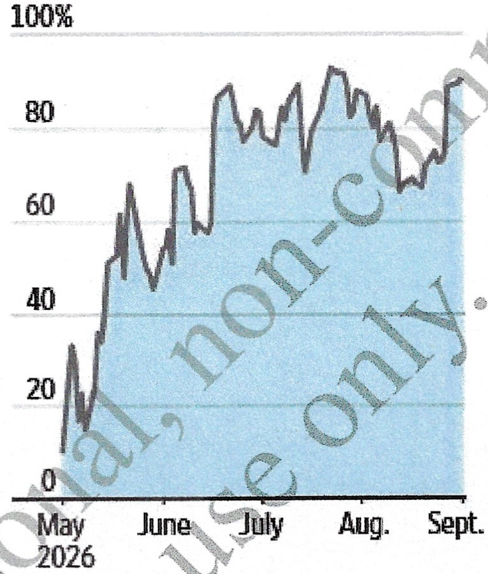
The rally in stocks is also helping fuel the AI investment boom, which has been a major source of support for the overall economy. Tuesday, the Commerce Department said private construction spending on data centers came to an annualized $75 billion in July, up $51 billion from the end of 2023. Private construction spending on everything else fell by $120 billion.

The main forces that are pressuring bonds............ B10

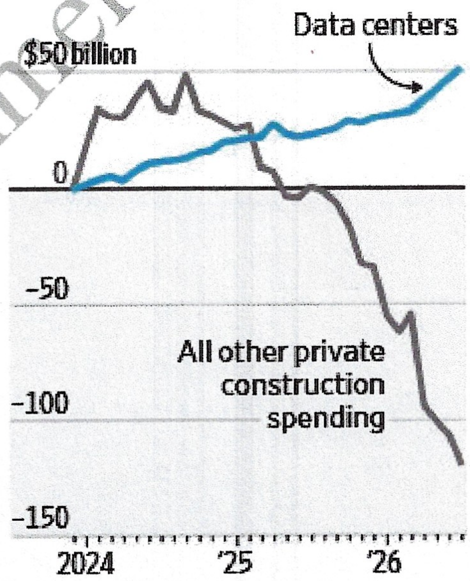
Average rate on a 30-year fixed-rate mortgage



Interest-rate futures implied odds of at least one Fed rate increase this year



Private construction relative to Dec. 2023*



*Seasonally adjusted, annual rate

Sources: Freddie Mac via St. Louis Fed (30-year mortgage); CME Group (interest-rate futures); Commerce Department (private construction)

2026-9-3

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image

There Are Four Forces Pressuring Bonds

By Jack Pitcher, Shradha Dinesh and Ryan Dezember

Many forces are pushing Treasury yields higher, including worries about government spending, a new Federal Reserve chairman and the huge surge in bond issuance to fund the artificial-intelligence buildout. But inflation is the main driver of the recent run-up.

While a confluence of factors have powered the global bond slide that carried yields to multiyear highs around the world, a look inside market shifts suggests the key factor in this country remains the sharp climb in energy prices driven by the war in Iran.

"The sharp rise in global bond yields reflects investors reassessing inflation," said Mike Goosay, chief investment officer and global head of fixed income at Principal Asset Management.

Here is a look at the key factors:

Fuel prices

Diesel prices have surged this summer since the U.S.Iran ceasefire fizzled and Ukraine began a campaign to knock out refineries in Russia, which is a major exporter of the fuel. Rising diesel prices tend to be more inflationary than those for gasoline since it is burned by trucks, trains, construction equipment and farming implements, lifting the cost of producing and shipping all manner of goods.

U.S. national average retail prices for diesel exceeded $5.68 a gallon on Wednesday, about $2 higher than a year ago, according to Dow Jones Energy.

The price is less than a penny shy of the high hit this spring after fighting began in the Persian Gulf and hindered transit through the Strait of Hormuz and within 13 cents of the record set in 2022 after Russia invaded Ukraine. Futures trading points to higher prices at the pump down the road. Diesel futures for October delivery have risen roughly 13% over the past week.

Deficits

It isn't just inflation driving yields higher. Some investors cited concerns over out-ofcontrol government spending.

Gross U.S. debt surpassed $40 trillion for the first time in August, a milestone that amplified the chorus of economists warning that the U.S. is on an unsustainable fiscal trajectory. Publicly held U.S. debt as a share of gross domestic product is fast approaching levels not seen since World War II.

Overseas, soaring government- bond yields in the U.K. have forced the government to try to try and cut its debts. And Japan's 10-year government bond yield just hit the highest level in about 30 years amid a debate over tax cuts that could weaken Japan's fiscal position.

Term premium (3) Note

One place investors' worries about fiscal policy or the growing supply of bonds would be evident is the term premium, typically defined as the component of Treasury yields that reflects everything other than investors' expectations for shortterm rates set by the Fed. That has climbed recently. But the biggest change has come since the start of the Iran war, and some investors and economists note that term premiums are higher in Europe and Japan, signaling more worry about the fiscal situation overseas.

Interest-rate bets

Fed Chairman Kevin Warsh's Jackson Hole speech alleviated some worries the Fed was insufficiently committed to fighting inflation, helping spark the climb in yields. Still, Warsh eschewed offering forward guidance like his predecessors, and the increased uncertainty is likely getting baked into longer- term borrowing costs in the U.S. and around the world, said David Kelly, chief global strategist at J.P. Morgan Asset Management.

Note

"If you have to identify one thing that's distinctly different from a few months ago, I do think it's the behavior of the Federal Reserve since Kevin Warsh took over," Kelly said. "I think there has been a Fed risk premium, even if it's a small one, added to markets."

Note

Meanwhile, the effects of Treasury Secretary Scott Bessent's plan to buy back more longer-term bonds were shortlived. "If the government says it's going to raise taxes and cut spending to bring the deficit down, that's one thing," Kelly added. "Saying you found another credit card that you haven't maxed out in your stack of 20 doesn't actually inspire confidence."

Note good comp.

CREDIT MARKETS

2026.9.3

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Why are we spending like we're in a recession?

The Denver Gazette · 3 Sep 2026 · B5 · Ken Buck served in the United States House of Representatives from 2015-2024 representing Colorado's 4th congressional district. He now serves as a Fellow with the Independent Center.

Despite a lot of talk about fiscal responsibility, lawmakers in Washington are continuing to run up the tab on America's already maxed-out credit card.

Note

The U.S. annual deficit — the difference between the revenue that the federal government collects and what it spends each year — reached $1.8 trillion through the first 10 months of the current fiscal year. With two months still left to go, this year's deficit will exceed $2 trillion.

In non-pandemic years, the U.S. deficit has never surpassed $1.8 trillion in a single year.

Our economy is growing, unemployment remains low and there is no national emergency forcing the government's hand. So, what gives? Why can't Washington get our fiscal house in order? As the president of the Committee for a Responsible Federal Budget put it, this is "not normal." Note

High borrowing costs, which are a result of our country's yawning national debt (the cumulative total of each year's deficit), are a major driver. The U.S. Treasury yield, which is the interest rate the government must pay on bonds issued for debt, hit a 19-year high this month, 5.34%. Note

In other words, as the national debt continues to climb, creditors are wary that the federal government will be able to repay its obligations and therefore demand a higher return. That means more revenue — almost 20 cents of every tax dollar, higher than the previous record set in 1991 — now goes to paying interest rather than investing in our country.

The real problem, however, is Washington's unbridled spending spree. Democrats insist on more federal programs, even as the price tag for existing entitlements continues to grow and annual shortfalls continue to mount. Federal spending increased by 5% this year compared to last, while revenue only grew 3%. Note

Sadly, even conservatives have gone along with the ruse. The Big Beautiful Bill, Republicans' landmark reconciliation package last year, promised to cut a lot of government waste and kept taxes low, but it failed to get to the root of the federal growth. Without serious entitlement reform, tax cuts leave the budget hole even larger. Note

The nonpartisan Congressional Budget Office estimated that the Big Beautiful Bill would add $3.4 trillion to the national debt over 10 years, and as much as $4.5 trillion when factoring in interest payments.

Don't get me wrong, Republicans' tax cuts are a smart way to spur economic growth, which is one way to improve our country's finances. When the private sector can invest its money, rather than pay it to Uncle Sam, it creates jobs and economic activity — which fill the public coffers. The government doesn't create jobs; businesses do. When companies and workers do well, so does the government. Note

But tax cuts must be offset by meaningful spending reductions. Addressing just one side of the ledger is like damming half a river; it doesn't fix deficits.

Getting our annual deficits in check doesn't mean looking back; it requires looking forward. It's a live decision, one that's happening at the same time the administration is asking Congress for a 19% increase in discretionary spending — which would be the second-largest bump in at least six decades. Note

Lawmakers must look at our deficit-spending addiction holistically. To his credit, President Donald Trump's 2027 budget proposes cutting non-defense spending by 10%. However, those gains are more than negated in defense spending. That's a critical priority, but funding must be offset with significant spending reductions. That means programs that have long been a political third rail, including Social Security, Medicare and Medicaid. Note

While slashing entitlement historically has not been a winning recipe for getting reelected, voters understand what's at stake and they want leaders who will make the right decisions.

Over eight in 10 Americans are more concerned about the national debt now compared to a few years ago, and 85% want Congress and the White House to do more to address it. The heightened awareness owes to voters' own understanding. Nine in 10 people realize that our country's debt problem is driving up costs of living and making personal borrowing more expensive.

Eliminating our country's annual deficits is achievable, and doing so will get our national debt on a path to be paid down. But it will take bold leaders who will set realistic goals and have the political courage to achieve them. That's a tall ask in Washington these days, but voters should demand it when they go to vote this fall.