

## The US bond market is suddenly flashing a warning sign about the economy

Story by Vivien Lou Chen 2026-2-11

Tuesday's delayed retail-sales data for December undermined expectations for economic growth, leading to an extended rally in U.S. government debt.

The flat reading on retail sales, which showed that American consumer spending fizzled out at the end of last year, translated into concerns that U.S. growth may not be as strong as previously presumed — resulting in what may be a lower path for both interest rates and inflation this year. Because the U.S. tends to lead the rest of the world, traders in Europe may be considering what this weakness could mean for the global economy.

"Fears that the economy was overheating were totally misplaced," said Jay Hatfield, chief executive of Infrastructure Capital Advisors in New York. These fears were in place as recently as January, when the annual pace of third-quarter U.S. gross domestic product was revised up to 4.4% from 4.3%. The thinking then was that stronger growth would likely produce more inflationary pressures and fewer Fed rate cuts — leading to higher bond yields. *Note*

Tuesday's rally sent the benchmark 10-year yield back to where it was just before expectations for stronger U.S. growth took hold in January. It fell 5.3 basis points to 4.14%, the lowest level in almost four weeks, after having jumped to as high as 4.3% last month. The rate on the 30-year bond dropped by 6.1 basis points on Tuesday to almost 4.79%, the lowest level since Jan. 15. In bonds, yields move in the opposite direction to prices, meaning that market-based rates decline during rallies in the underlying maturities.

Separately, fed-funds-futures traders priced in a 19.6% chance of a quarter-point interest-rate cut by the Federal Reserve next month, up from 17.2% a day ago, according to the CME FedWatch Tool. They also factored in somewhat higher chances of three or four cuts in total by year-end. That's more than what Fed officials have indicated is likely to be appropriate.

"The December retail sales report was ugly, with sales flat on the month versus expectations for a 0.4% gain, following a 0.6% advance in November," EY-Parthenon Chief Economist Gregory Daco wrote in a Tuesday client note. "While some affluent households continued to spend freely through the holidays, most consumers were far more judicious and relied increasingly on credit and savings drawdowns to sustain outlays."

Outside the U.S., bond markets in the U.K., France, and Germany also extended rallies after December's U.S. retail-sales data came out at 8:30 a.m. Eastern time. Hatfield attributed some portion of the European rallies to the data release since "the U.S. usually drives the world" and, right now, "the data suggests economic growth is slowing and rates are going to come down."

He added: "We think inflation is likely to roll down hard in the first quarter and that the 10-year yield is going down well below 4%." After December's retail-sales data, the [Atlanta Fed's GDPNOW](#) estimate of real U.S. growth fell to 3.7% on Tuesday from a previous estimate of 4.2%.

Stocks finished mostly lower on Tuesday. The Dow Jones Industrial Average closed in record territory for a third straight session on Tuesday, but the S&P 500 index and Nasdaq Composite Index respectively fell 0.3% and 0.6%.