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Bond Markets Sell Off Globally As Higher Yields Pressure Stocks

BY JACK PITCHER

Mounting debt concerns sparked a selloff in global bond markets.

Jitters began in the European trading day when yields on long-dated U.K., German and French government bonds all rose to decade-plus highs.

Debt and inflation concerns, meanwhile, pressured U.S. stocks.

The tech-heavy Nasdaq composite led declines, closing down 0.8% after losing nearly 2% earlier in the day. The S&P 500 was 0.7% lower, while the Dow Jones Industrial Average dropped 249 points, or 0.5%.

It was a fitting start to September, which has been the worst-performing month for the S&P 500 over the past decade with an average loss of 2%, according to UBS.

Investors across the Atlantic have grown uneasy with higher government debt levels being used to finance defense and infrastructure spending at a time the European economy has grown stagnant.

In Germany, where government bonds are typically seen as a European haven, prices have taken a hit from Berlin's plans to boost military spending.

New data last Tuesday that showed higher-than-expected European inflation in August added to the angst. Yields rise when bond prices fall, as bondholders demand higher interest for the perceived risk they are taking.

"The European debt narrative has pivoted from the periphery to the core. Fiscal fragility, political instability, and cratering market confidence are colliding in real time," economists at Yardeni Research wrote to clients on Tuesday.

U.S. Treasury bonds posted more-modest declines, with the 10-year Treasury yield rising to 4.276% from 4.227% on Friday.

American investors have grown concerned with President Trump's campaign to reshape the Federal Reserve and are awaiting a court ruling on whether his bid to fire Fed governor Lisa Cook will be allowed to proceed.

The president has urged the central bank to cut interest rates, fueling concerns about inflation and longerterm risks to the Fed's independence.

The prospects for Trump's signature tariffs also look uncertain.

An appeals court struck down the administration's "reciprocal" levies late last week, setting the stage for the case to head to the Supreme Court. The ruling also provoked worries in the U.S. bond market, as it could result in lower tariff

revenues and a wider deficit, analysts said.

Real estate, technology stocks and other riskier assets fell Tuesday, as they often do when bond yields rise.

The dollar rose against a basket of other currencies, while the gold price set an alltime high at \$3,549.40 a troy ounce.

After a quiet August in stock and bond markets, Tuesday's action showed that fiscal and inflationary concerns could spark more excitement in September, which has a number of coming catalysts. On Friday, the August jobs report will hint at how the labor market is holding up amid Trump's trade war.

An unexpectedly strong number could change the Fed's calculus ahead of its rate-setting meeting, which is widely expected to result in a cut.

"This Friday's employment report could be one of the most important in years," said David Kelly, chief global strategist at J.P. Morgan Asset Management.

A "sluggish" short-term economy and rising inflationary pressures have put the central bank in a tricky spot, Kelly added.

Notable individual stock moves Tuesday included **PepsiCo**, which posted a 1.1% gain after The Wall Street Journal reported that activist investor Elliott Investment Management has built up a roughly \$4 billion stake.

Meanwhile, shares of Modelo- and-Corona-marketer **Constellation Brands** tumbled 6.6% after the company slashed its beer sales outlook for the year.

TUESDAY'S MARKETS

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