Bond market selloff: Finance capital’s call for deep attacks on the working class

Nick Beams
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The major selloff in the $25 trillion US bond market in recent weeks, lifting yields (interest) on 10-year Treasuries to their highest level since 2007 (prices and yields have an inverse relationship) has major implications for the financial system and the real economy.

In the same way that the American political system is assuming ever-more chaotic and unpredictable forms, so market analysts and media commentators are increasingly puzzled over what is taking place in the bond market and where it is heading.

The question uppermost in their minds, for which they have yet to find an answer, is: Why now?

Nick Timiraos, one of the leading economic and financial writers at the *Wall Street Journal* (WSJ) who has been supplied with leaks from the US Federal Reserve in the past, wrote this week: “[The] sudden surge in long-term interest rates to 16-year highs in threatening hopes for an economic soft landing, all the more because the exact triggers for the move are unclear.”

He cited comments by Daleep Singh, a former executive at the New York Fed, now chief global economist as PGIM Fixed Income, who described the situation as “perplexing” and that “no fundamental explanation is convincing.”

Financial Times (FT) writer Katie Martin also noted that, “alarmingly,” the reason was not obvious. One theory was that the sharp movement was a result of big investors catching up with a world in which interest rates would be higher for longer and it would “blow over soon.”

“Theory two,” she continued, “is that we are in the foothills of a catastrophic reckoning with the fiscal incontinence and addiction to low rates that had taken hold over the previous few decades, and we should brace for a serious challenge to the global dominance of the dollar and US government bonds’ centrality in financial markets.”

The yields on bonds at around 4.7 percent are well below historic highs and would have been regarded as within a normal range in an earlier period. However, the sharpness of the increase—more than half a percentage point over the past month—is causing concerns. Half a percentage point is a large number in a market where shifts in rates are mostly in small fractions.

There is a fear that rapid moves could trigger problems in what is already a fragile Treasury market. It has become increasingly unpredictable because of the growing role of hedge funds making big bets with large amounts of borrowed money.

Global head of markets as the Dutch financial giant ING told the FT: “It feels like something is going to snap but I’m not quite sure what.”

US Treasury secretary Janet Yellen does not have answers either. Asked at conference in Washington on Tuesday about whether bonds would settle at the higher level, she replied: “It’s a great question, and it’s one that’s very much on my and the administration’s minds.”

One of her concerns no doubt is the effect of high market rates on interest the government pays on its debt. Moreover, falling bond prices will have an effect on its capacity to raise new funds to finance its increased expenditure, not least the escalating military outlays.

A key factor in the puzzlement over the bond market selloff is that it is taking place in conditions where, in a “normal” situation, a fall in yields, not a rise, might be expected.

The rate of inflation is starting to come down, though still above the Fed’s target rate of 2 percent, and the central bank had indicated that, while it is not going to make interest rate cuts in the foreseeable future, it is not going to raise rates at the same pace as earlier in the rate tightening cycle.

However, the Treasury market and US public finances are a far cry from what they once were, having being transformed both by the increased borrowing by successive administrations and the injection of trillions of dollars into the financial system by the Fed.

In 2007, on the eve of the financial crisis, US public debt was around $6.5 trillion. Today it stands at more than $33 trillion, a five-fold increase. The Treasury market has grown from $5 trillion at the start of 2008 to $25 trillion today. While it has reduced its holdings over the past year, so called quantitative tightening, the Fed still has $8.7 trillion of financial assets on its book compared to $730 billion 20 years ago—a twelve-fold increase.

In addition to the changes in the financial landscape, there has been a qualitative shift in the class struggle.

After the often-violent suppression of the struggles of the working class in the 1980s—the combined action of the capitalist state and the trade union bureaucracy—successive administrations, together with the Fed, were able to pursue their policy of pumping money into the financial system, boosting the stock market to records highs, relatively undisturbed.

This was dubbed the era of the Great Moderation. Money and profits were created seemingly out of thin air, the income of the working class was cut, and social inequality widened to historically unprecedented levels as virtually free money was handed to the corporations and finance houses.

Now the situation has changed. The recent period has seen the most significant wages struggles in decades, covering ever broader sections of the working class. This is fuelled by the pent-up anger over decades of attacks on wages and working conditions and the escalation of inflation resulting from the COVID-19 pandemic.

At first, the Fed sought to continue its ultra-loose monetary policies, characterising the surge in inflation as "transitory." But it had to soon shift course when it became apparent that workers were entering into struggle. So it initiated interest rate hikes to bring about an economic slowdown and end what it called a "tight" or "very tight" labour market.

While it is generally kept out of discussion in the so-called mainstream media, this shift in the working class has a major impact.

As Karl Marx noted more than 170 years ago, the wolves of finance can continue to devour the resources of the state so long as confidence is retained in its ability to retain order. But there is nothing that shakes this confidence more than the development of the class struggle and thus its suppression becomes a crucial factor in determining economic and financial policy.

This process can be seen in the actions of the Biden administration working hand-in-glove with the trade union bureaucracy to suppress the struggles of auto workers, dock workers, railroad workers and others. As the WSWS has noted, if the struggles of the working class proceeded without bureaucratic suppression from above, the class struggle would be developing on a vast scale.

The bond market sell-off must be placed in this broader context to be understood.

It is first of all a declaration by finance capital that the present situation, in which debt is being endlessly accumulated, is increasingly risky. As a result, it is demanding a premium in the form of higher yields.

Other factors are also at work. The deepening political turmoil in Washington is one.

There is also the question of international confidence in the US with a number of countries seeking to break free, at least to some extent, from dependence on the American dollar in international transactions. There are also reports that Japanese and Chinese money, which play crucial roles in the functioning of the US Treasury market, may be withdrawing, leading to downward pressure on bond prices.

The fall in bond prices is not just the expression of a lack of confidence. It is also a means through which finance capital issues its orders.

This was underscored by long time finanancial operative Edward Yardeni who coined the term "bond vigilantes" back in the 1980s.

He reprised his 1983 definition in a comment published in the FT this week: "So if the fiscal and monetary authorities won't regulate the economy, the bond investors will. The economy will be run by vigilantes in the credit market."

In the period of ultra-low interest rates, the vigilantes were subdued. But now, according to Yardeni, they are back.

Their agenda is clear. Under conditions where the central strategy of the US to maintain its global position is war, the massive increases in military spending must be financed through deep attacks on the social position of the working class.

Those are the orders being dictated via the financial markets and they were specifically set out by the credit rating agency Fitch when it downgraded the US credit rating in August.

Among the reasons it cited was that "there has only been limited progress in tackling medium-term challenges related to rising Social Security and Medicare costs due to an aging population."