# Global bond market selloff intensifies

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Bond markets around the world experienced a major selloff last week with yields (interest rates) on government debt rising to their highest levels in many years as financial markets fear that inflation will surge even further as a consequence of the Iran war.

The yield on the 30-year US Treasury bond, a benchmark for the US and global financial system, jumped by 0.1 percent, a significant move for this market, to reach 5.12 percent, its highest level since 2007 on the eve of the global financial crisis.

The yield on the 30-year Japanese Government Bond (JGB) climbed 0.14 percentage points to reach more than 4 percent for the first time ever.

In the UK, where market movements have been compounded by the crisis surrounding the leadership of the Labor government, with prime minister Sir Keir Starmer warning of "chaos" if he is removed and replaced by a leader the markets regard as "leftist," the yield on the 30-year bond rose to 5.85 percent, its highest level this century.

The UK situation is the sharpest expression of what is a global phenomenon. Finance capital now dominates in every country, and it demands the obliteration and democratic and social rights in pursuit of its predatory interests.

The British political establishment was given a sharp lesson about this political reality when the Tory government of Liz Truss was brought down in September-October 2022 when its attempt to finance tax cuts for the wealthy and corporations through an increase in debt precipitated a financial crisis requiring the intervention of the Bank of England.

In the US, it is the driving force of the escalation of war as American imperialism and its financial oligarchy seeks to retain its dominant position with president Trump stating openly that it his sole concern and that he does not even think about the impact of its consequences on the living standards of the mass of the population.

At the same time, finance capital dictates that major firms undertake cost cutting through mass sackings in order to retain their market value on Wall Street.

But there are indications that the global bond market selloff is starting to effect other financial markets and that a crisis is brewing, including in the US stock market which has been hitting record highs on the back of the frenzy generated by the development of AI and the vast investment in it.

Last Friday, as the yield on the 10-year US bond rose above 4.5 percent, the S&P 500 dropped by 1 percent led down by tech stocks which are the dominant determinant of the index.

Speaking to Bloomberg, Priya Misra, a portfolio manager at JPMorgan Asset Management, said: "The fact that we have broken this psychological 4.5 percent on the 10-year, it becomes dangerous, not just for the bond market, but also the broader risk complex. As you see tightening in financial conditions, the markets start to move from, 'Is this just inflationary?' to 'Is this stagflationary?"

Despite the inflationary surge produced by the war, Wall Street has been on a tear, with the S&P 500 rising by more than 12 percent since the start of April and the announcement of a ceasefire in the Iran war.

But the surge has been very narrowly based. It has been driven by the smallest number of stocks on record and has been pulled higher by the rise in the stocks of the major AI firms.

Valérie Noël, head of trading at the wealth management firm Syz Bank, told the *Financial Times*: "What looks like broad market resilience is, to a large extent, a small group of megacap technology and AI stocks pulling the index higher, while the rest of the market has had a more difficult period. This raises fragility risk. If sentiment towards AI-linked names reverses, the downside… could be significant."

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The concentration of the market at the top is indicated that five tech stocks—Alphabet (the owner of Google), Nvidia, the AI chipmaker, Amazon, Broadcom, which designs and develops chips and software products, and Apple—account for more than half of the recent S&P surge.

The extent of the frenzy is indicated by developments outside the megacaps. Shares in the chipmaker Cerebras more than doubled with its entry into the market last week and the market value of the AI developer Anthropic is estimated to have risen from $350 billion to $900 billion in just three months.

The significance of the bond market selloff is that it threatens to bring about major problems for this house of cards which is largely based on expectations of profit rather than present returns and is increasingly being financed by the growth of debt.

And the US financial system, notwithstanding the claims of the Trump administration that the rise of Wall Street indicates the success of its "America first" policies, is impacted by developments in global markets.

Here the rise in Japanese bond yields is significant. Last Friday the yield on 10-year JGB rose to 2.73 percent, its highest level since 1997. The yield on the 30-year bond has gone over 4 percent for the first time ever, while the yield on 5-year and 20-year bonds have also reached record highs on the expectation that the Bank of Japan will soon lift interest rates.

This means that finance capital which has been invested abroad may start to flow back into the domestic market, delivering a hit to the US Treasury market. Japan is by far the largest source of foreign funding for US debt, holding around $1 trillion.

Repatriation of Japanese money means a lower price for US bonds and higher interest rates on US debt, now at $39 trillion and rising, with the interest bill alone running at around $1 trillion a year, with more borrowing required just to pay the interest on past borrowings.

As Ellen Zentner, chief economic strategist at Morgan Stanley Wealth Management, commented to the *New York Times*, clients constantly asked her whether federal government indebtedness was on a sustainable path.

"To me, it is one of the easiest questions to answer," she said. "We are not."

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