Bond yields surge as governments borrow for war and rearmament

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1 September 2026

The yields on government bonds have reached their highest levels since before the financial crisis of 2008 as the financial markets deliver a directive to governments around the world that they must slash spending on all social services and deepen their attacks on the working class in order to pay for war and rearmament.

Yesterday global bond markets were hit by a selloff. Yields in the UK, Germany, France and Australia rose to levels not seen since the 1990s. UK borrowing costs rose to their highest levels since 2008. The yield on the Japanese 10-year bond, which had been at ultra-low levels until recently, spiked to 3 percent, its highest level since 1996.

In the UK, the yield on the 10-year bond jumped by as much as 0.11 percentage points—a significant movement where "normal" movements are only a tiny fraction of a percentage point—reaching as high as 5.26 percent. The yields on the 30-year bond jumped by as much as 0.12 percentage points to reach 5.9 percent, the highest level since the late 1990s.

The rise in US bond yields was particularly significant because it came in the face of attempts by Treasury secretary Scott Bessent to suppress them at the longer end of the market. Last month he said that Treasury buybacks would rise from $2 billion to $4 billion, and possibly more, in each operation to try and quell the rise.

This measure failed even before it had started. The yield on the 10-year Treasury bond rose to 4.8 percent, its highest level since Trump came to office in 2025, amid fears it is heading even higher. The yield on the 30-year bond rose to 5.27 percent, back to the level it was before Bessent made his announcement.

As Bloomberg noted, the signal was a clear message from the world's biggest bond market: "It'll take more than an out-of-schedule tweak to the Treasury's buyback to sooth investors worried about the surging national debt and persistently elevated inflation."

This failure is symptomatic not just of the immediate situation but of a deeper historic process—the disintegration of all the methods used by the US and other governments to stave off the deepening crisis of the global capitalist economy and its financial system which has erupted with increasing ferocity over the past three decades.

Following the collapse of Lehman Brothers in 2008, setting off the deepest financial crisis since the 1930s, the US government organised billions of dollars in bailouts for corporations as the US Federal Reserve cut interest rates to zero while pumping trillions of dollars into the financial system via quantitative easing through the purchase of Treasury bonds and mortgage-backed securities.

But the crisis was never overcome. It erupted in a new form in March 2020 at the start of the pandemic when fears of its economic and financial consequences led to a freeze in the US Treasury market. For days no buyer could be found for US government debt, supposedly the safest financial asset in the world. The Fed intervened to the tune of $4 trillion, at one point outlaying hundreds of millions of dollars a day.

In 2008, US federal debt was $10 trillion. Last month it passed $40 trillion with the interest bill running at $1 trillion a year, fast becoming the largest item in the US government budget. A doom loop is rapidly developing in which the government must borrow money just to pay the interest costs on its past debt. This is symptomatic of a state sliding into bankruptcy and decay.

This means the methods used in the past to rescue the financial system are collapsing. The US was able to bail itself out because of the role of the dollar as the global currency and confidence in the strength of the American financial system which meant it could draw on financial resources from the rest of the world. That confidence is now disintegrating.

The disintegration is being reflected not least in a massive decline in the value of the dollar as expressed in gold, the ultimate store of real value as opposed to the mountain of fictitious capital as seen in the growth of corporate and government debt and the escalation of the stock market.

In March 2020, the gold price was around $1500 per ounce. Today it is $4500. In other words, in the space of just six years the value of the dollar against gold, the incarnation of real value, is one third of what it was.

Measured against the level of 1971 when gold was $35 per ounce, before US president Nixon removed its gold backing, the decline is even starker. At that time a dollar was worth one thirty-fifth of an ounce of gold. Today it is worth one four thousand five hundredth of an ounce.

The world capitalist system has entered a historic breakdown the cause of which is the entry into a third world war in which the ruling classes, with the US in the lead, seek to solve the irresolvable contradictions of the system over which they preside by military means.

The Ninth Congress of the Socialist Equality Party (US) held last month clearly identified this process.

In his opening report SEP national chairman David North stated that it "is no longer a question of whether such a war will erupt." It had already begun.

"The world war is underway, developing in the manner of a metastatic process: it is spreading globally as a chronic and expanding condition, colonizing new regions, fusing previously separate conflicts and progressively transforming the world economy and every national state in preparation for the general conflagration toward which it tends."

A central component of this transformation is the demand, now being transmitted to every government via the bond markets, that they must step up their onslaught against the working class to unprecedented levels to finance war and military spending.

Putting the figures expressed in the financial markets into words, the *Financial Times* declared in an editorial that governments could not ignore the signals coming from the bond markets nor try to suppress them.

"That means tackling rising welfare and pension costs head-on and resisting give aways or tax cuts without credible funding plans." Avoiding pain today would only bring greater pain tomorrow.

In the US the *Washington Post*, speaking for the financial oligarchy, has been waging a campaign demanding that the debt crisis be imposed on the working class.

On August 10 in an editorial under the headline "When America's budget will break, disastrously" it warned that if "the US needs to boost defense spending for a protracted war, it doesn't have much room to grow."

On August 24 under the headline "To get the national debt under control, start with the retirement state" it was more specific, stating that there was "no realistic path to solvency for the US government without changes to the retirement state."

The bond selloff is an expression of the historic crisis of the capitalist system of which war, the debt crisis and the deepening assault on the working class are interconnected parts.

The run up of the debt has been incurred to prop up the financial system and enrich the oligarchs that dominate it. Now they are demanding that the working class pay for the crisis they, and the institutions of the capitalist state, have created.

Workers did not create the debt. They must refuse to pay for it. That refusal must be concretized through the political fight for an internationalist socialist program: the conquest of political power by the working class, the expropriation of the financial oligarchy and the transfer of the banks and major corporations into public ownership under democratic control.