Bond market sell-off sinks Bessent plan

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The attempt by US Treasury Secretary Scott Bessent to bring down bond yields (interest rates) at the longer end of the market by organising an increased Treasury buyback operation of up to $6 billion has hit the ground with a thud.

With the launch of the operation on Thursday, in which the Treasury bought $5.19 billion worth of 10-year and 20-year bonds, the sell-off continued unabated sending yields to the highest levels seen in two decades.

Besides widespread market scepticism about the Bessent plan, the sell-off was fuelled by the jump in oil prices to $109 a barrel from around $100 the day before.

The yield on the 30-year bond rose by 0.08 percentage points to 5.37 percent, its highest level since 2007, as investors gave what the *Financial Times* (FT) characterised as a “frosty reception” to the Bessent buyback plan.

The yield on the 10-year Treasury, regarded as the most significant because it is the baseline for rates in the rest of the financial markets, rose to 4.95 percent and is rapidly approaching the 5 percent level at which point it has been forecast, by some analysts, it will start having an effect on the stock market.

The yield on two-year Treasuries, which are sensitive to the actions of the Federal Reserve, rose by 0.16 percentage points to 4.58 percent, an indication the market expects the Fed to lift its interest rate when it meets next week.

The market’s thumbs down on the Bessent buyback did not come as a great surprise given the reaction the previous day to his announcement that the Treasury could spend as much as $6 billion, compared to the usual outlay of $2 billion per operation.

Elias Haddad at the global financial services firm Brown Brothers Harriman told Bloomberg: “As it stands Treasury brought a pea shooter to a tank battle.” Other comments referred to water pistols.

Michael Strain, an economist at the right-wing American Enterprise Institute, said that for the past few weeks Bessent had been engaged in financial engineering, but he did not believe such attempts would “overpower the force of economic fundamentals.”

Those fundamentals were pointed to by Subadra Rajappa, head of research at the French financial firm Société Générale, in comments to the FT.

She said Bessent showed “an understanding of the importance of the long-end sell-off. But I just think broadly the thing they need to address is the direction of the debt and deficit. Everything else is cosmetic.”

The national debt in the US has just passed $40 trillion. It is expected to reach $41 trillion by the end of the year, possibly even faster if US President Trump’s promise to pay every adult $5,000 if the Republicans retain control of the House and the Senate in the midterm elections at the start of November is met. The total cost of the Trump bribe is estimated to be more than $1 trillion.

The interest bill on past US debts is running at around $1 trillion a year and rising. But it is only the sharpest expression of a mounting crisis in the entire global financial system.

According to analysis published in the FT earlier this week, “the world’s governments have created a $2 trillion monster” in the form of the debt servicing burden that “gobbles up tax revenue.”

It reported that more money is spent on servicing the debt than on military spending in the US, the UK and France and the same was true for more than a dozen countries which comprise the 38 members of the OECD, the grouping of the richest countries. The total for the group is $2 trillion. The French government expects the cost of servicing its debt to rise by 25 percent this year.

With the OECD nations expected to borrow a further $18 trillion this year, an all-time high, investors are lowering the price they are prepared to pay for this increased supply, increasing the yield on bonds.

Interest rates of 5 percent or even more are not that high by historical standards. They were at that level before the global financial crisis of 2008. But after the crash interest rates were lowered to near zero while debt accumulation increased at an elevated rate.

The money used to finance bailouts after 2008 and again in the COVID pandemic and more recently to expand military spending pushed global public debt to 94 percent of world GDP last year—up more than 10 percentage points since 2019. According to the International Monetary Fund it will hit 100 percent by the end of the decade.

The mounting debt did not present a significant financial problem until interest rates began to rise in 2021–22, due to the surge in inflation triggered by the pandemic, and which has continued since then and is now being accelerated by the US war on Iran.

Twenty years ago, an interest rate of 5 percent did not present a major problem for debt financing. Now it does.

And as the FT analysis drew out, it sets up the conditions for a vicious cycle in which rising interest costs on past debt create more debt.

"In this 'doom loop' scenario," the article said, "the sheer scale of interest rate charges a government has to pay undermines the health of its finances and pushes up its debt, causing investors to push for higher yields that then drive up the cost of debt servicing still further."

There are now warnings that the increase in the interest rates on long-term US government debt, particularly on the 10-year bond which forms the base line for corporate borrowing, will impact on the broader economy, hitting the AI boom which is becoming increasingly dependent on borrowed money.

One of those making such warnings is Ruchir Sharma, the chair of Rockefeller International. In a recent column in the FT, he noted that "runaway debt" and the global government bond sell-off is "starting to matter," noting that every major bubble going back 300 years ended when borrowing costs rose significantly for companies at its core.

Sharma has written in the past that the AI boom has many of the hallmarks of a bubble and would end when interest rates reached prohibitive levels.

He wrote that the yield on the 10-year Treasury bond had reached 4.8 percent (it has since hit 4.95 percent) and that "when it decisively breaches 5 percent, the upper end of its rate since the dotcom period, the AI bubble could pop."

Writing in the FT, Benn Steil, the director of international relations at the Council on Foreign Relations, drew attention to a significant change in the structure of the Treasury bond market which is contributing to its volatility.

In 2007, on the eve of the global financial crisis, some 76 percent of US bonds were held by price-insensitive investors such as central banks who held them as part of their stable management policies. Today they hold only 43 percent, with the majority held by price-sensitive investors, including investment funds, which demand greater returns as government debt grows and inflation erodes their purchasing power.

The issuance of Treasuries needed to finance US debt was outpacing the demand of the once-reliable price-insensitive investors, he continued. "The new private buyers pay far more attention to yield and have to be offered higher and higher rates to absorb the growing Treasury supply."

The turbulence in the market and the issues raised in comments expressing growing concern signify the build-up of the conditions for a crisis in the US and, necessarily, the global financial system.

The manoeuvres of Bessent and other finance ministers and central bankers around the world can only provide at best a temporary "fix" and maybe not even that as the failure of this week's Treasury buyback has revealed. The drumbeats in ruling circles are beating ever louder for a full-scale and devastating onslaught on the social conditions of the working class as increasing amounts of money are set aside for war.

The ruling class is making its preparations and likewise so must the working class in the US and internationally in the fight for a revolutionary socialist program—the only viable solution to the breakdown of global capitalism being manifested not least in its financial system.