Bond markets in a “meltdown”

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24 September 2026

Global bond markets, led by the US, continued to fall yesterday in what has been described as a “meltdown,” sending yields (interest rates) to their highest levels since before the 2008 financial crisis.

The bond sell-off has been developing for several weeks. It accelerated on Wednesday when the yield on the 10-year Treasury bond recorded its biggest jump since Trump announced his sweeping “reciprocal” tariffs in April 2025.

It rose by 0.15 percentage points and then followed this with a further increase of 0.11 percentage points yesterday, taking the yield to 5.23 percent, with no indication as to when the sell-off might stop.

Commenting on Wednesday’s sell-off, Subadra Rajappa, head of US research at Société Générale, told Bloomberg: “It’s a meltdown. The sell-off began overseas in global bonds, but as we breach key levels, it’s getting a bit untethered.”

The *Wall Street Journal* commented that the bond market sell-off had been “mostly orderly in recent weeks. Then came Wednesday.”

A number of incidents came together to create what it called a “perfect storm.” First, there was a survey on business activity which indicated stronger than expected US growth, strengthening the prospect of another rate hike by the Fed.

Then came a defiant speech by Iran’s representative at the UN that the Strait of Hormuz would not be reopened as long as US sanctions remained in place, as well as comments from a Fed governor that were regarded as “hawkish” and a weak auction of US government bonds.

But these events were only a catalyst for the sell-off which went around the world as yields in Germany, Japan, and the UK all rose due to concerns about the level of government debt.

As Eric Robertson, the head of global research at Standard Charter in Singapore, told the *Financial Times*: “We are in what I would call a correlated move in yields. There’s no escape. It’s this combination of fiscal risk made worse by political uncertainty. You’re now in this negative feedback loop.”

As bond prices were cratering, the OECD, the 38-member grouping of major economies, issued a warning that rising bond yields were of “major concern” because of the increasing amount of government revenue being consumed by rising interest payments on debt.

OECD chief economist Stefano Scarpetta warned of “increasingly pressing fiscal challenges” for member governments. In an interview with the FT, he said: “The increase in bond yield is a major concern.”

He noted that debt-to-GDP ratios had been increasing “like a staircase” since 2008, as successive shocks hit the global economy. “The debt servicing will increase at a time when debt-to-GDP ratios are at very high levels.”

Viewed from a historical standpoint, a yield of above 5 percent on a 10-year Treasury bond is not that high, leading some observers to characterize it as a return to “normal.”

But such analysis ignores the impact of the extraordinary conditions which developed after the 2008 crisis and the Treasury market freeze of March 2020, as the US Fed and other central banks pumped trillions of dollars into the financial system, lowering interest rates to near zero, to prevent its collapse.

Commenting on what it called the “wild ride” back to 5 percent, the WSJ noted: “Many on Wall Street started to believe that low rates had become a permanent fixture and borrowing would always be cheap. Tech startups with easy access to capital pursued loss-leading strategies to acquire customers, and private equity firms went in an acquisition being powered by cheap debt.”

The enormous expansion of debt which has resulted—government, household and corporate—was highlighted by a report from the Institute of International Finance (IIF) issued this week. In the first half of this year, total global debt rose to $365 trillion, up from $347 trillion a year earlier, with total government debt coming in at $110 trillion.

The IIF drew attention to the sharp rise in interest rate costs. Over the past year, advanced economies had paid more than $3.5 trillion in interest on internationally traded bonds compared to $2.6 trillion on AI, $3.1 trillion on the military and $3.4 trillion on energy.

The bond market sell-off in the US has had immediate consequences, with the interest rate on a 30-year home mortgage rising to more than 7 percent.

A major concern is that the rises will impact on the AI investment surge, which has become the chief factor sustaining the US economy.

According to estimates issued by the Brookings Institution, reported in the WSJ, investment in data centers and AI related infrastructure is projected to total $10.3 trillion from 2025 to 2032—equivalent to 3.6 percent of US GDP every year on average—and putting it “on track to become the biggest economic bet in US history.”

But as the WSJ article noted: “It is also creating significant risk, as much of it is built on debt. An abrupt slowdown could ignite shock waves throughout the US economy.”

How dependent the “hyperscalers” are on debt and their overall financial position is not easy to calculate. This is due to the circular arrangements they have with each other—in which one company provides money for another, which is then used to buy its products—and the use of off-balance sheet entities to borrow from banks and private credit firms.

The immediate outcome of the bond sell-off is yet to be established. But one thing is clear: US financial authorities have no economic or financial solution to the developing crisis.

The announcements by Treasury Secretary Scott Bessent for increased buyback purchases at the longer end of the market to try to keep rates down have failed. And the moves by the Treasury to issue increasing amounts of debt at the shorter end are no solution either, since yields are rising there and the debt must be rolled over more frequently.

The objective logic of the crisis dictates two courses. On the one hand, increased attacks by the US on its rivals and competitors in the form of economic and military measures and, on the other, the slashing of spending on vital services at home—a stepped war against the working class.