Written by [Rebecca Terrell](#) on September 15, 2026

Global Bond-market Sell-off Drives Yields Higher Amid Fiscal Pressures

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A sharp sell-off in government bonds pushed yields to multi-decade highs across major economies in early September. Investors are dumping sovereign debt as [concerns mount](#) over persistent inflation, surging energy prices, and large fiscal deficits. Yields move inversely to bond prices, so the decline in prices has driven borrowing costs upward worldwide.

In the United States, the benchmark 10-year Treasury yield recently reached approximately 4.8 percent, its highest level since late 2023. Japan's 10-year yield climbed above three percent for the first time since 1996. German 10-year Bund yields hit their highest point since 2011, while U.K. 10-year gilt yields approached levels last seen in 2008. Similar pressure has appeared in Australia and other markets.

Causes and Effects

Certain factors are fueling the phenomenon. For instance, energy shocks linked to the ongoing U.S.-Iran conflict have driven oil prices higher. Crude oil has traded near or above $95 per barrel, and European natural-gas prices have also risen sharply. Such increases raise expectations of broader inflation, prompting markets to price-in possible interest-rate hikes by central banks.

For the United States, the rise in yields is foreboding. Higher Treasury yields increase the cost of refinancing existing debt and issuing new securities to cover deficits. Interest payments on the federal debt already represent a significant and growing share of the budget. Sustained higher yields would raise those costs further, potentially crowding out other spending or requiring additional borrowing in a feedback loop.

Elevated Treasury yields also influence consumer borrowing costs. Mortgage rates, auto loans, and corporate credit typically move in tandem with government yields. Higher rates can slow housing activity, raise household expenses, and increase financing costs for businesses.

State Influence Shapes Market Policy

An illustrative anecdote is seen in *An Economic Interpretation of the Constitution of the United States*, written in 1913 by historian Charles Beard.

Beard argued that the 1787 Constitutional Convention was shaped substantially by the interests of men holding depreciated Revolutionary War bonds. As the bonds came to maturity, they didn't want to be paid back in worthless state fiat. At the time, each individual state within the Union had its own unique currency, and most were devalued by overprinting. Beard wrote, "But it must be remembered that at the time the new system went into effect, the public had no credit, and financiers were not willing to forego their gains and profits for an abstraction." Bond-holders didn't like the setup created by the Articles of Confederation, and wanted a central government strong enough to tax and honor their bonds at full value. Hence these creditors sent the Founding Fathers back to the drawing board to create a new Constitution that pegged a federal U.S. currency to gold.

The international sovereign-bond market has similar deep roots in state power. London's Barings Bank, founded in 1762, effectively pioneered sovereign lending as a global business, using the issuance of bonds to finance the British government, underwriting the Louisiana Purchase, and becoming so central to European finance that the Duke of Richelieu reportedly named the Barings merchant bank a "sixth great power" alongside Europe's monarchies.

Over time, the pattern recurs: When empires fragment or states consolidate, new sovereign borrowers emerge. The Ottoman Empire's collapse produced a dozen new debt-issuing nations; the Soviet Union's dissolution created more than a dozen more; and European integration created supranational borrowing through EU institutions.

Far-reaching Consequences

Now, as investors dump Treasuries around the world and weaken the bond market, there will be significant repercussions for many — from individuals wanting to obtain a home loan to giant supranational polities such as the European Union.

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