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Why global government bond yields have risen

Government bond yields have been rising across the globe since early April's surge in market volatility. We explore why the recent yield spike may be transitory and consider the current attractiveness of fixed income relative to other assets on a risk-adjusted basis.

What’s been driving global bond yields higher?

Global markets have experienced significant volatility in 2025. Risk-off investor sentiment took hold early in the year, weighing on prices of assets such as equities and cryptocurrencies. However, April 8 marked a turning point, as the flow of tariff-related headlines moved in a more positive direction, lifting sentiment and sending prices higher. In fixed income, the yield of the 10-year U.S. Treasury note started the year at 4.57% and then sank to a low of 4.01% on April 4. However, just a few weeks later, the yield returned to roughly where it started the year, closing at 4.58% on May 21.

While we’re hearing plenty of narratives that seek to explain what’s been driving bond markets, there’s little data to back them up. From our perspective, the best explanation is that markets have moved on from caring about economic and fundamental risks and have shifted to chasing returns in high-momentum market segments such as Bitcoin and European equities. While there’s been an abundance of negative sentiment around bonds this year, the asset class has been relatively steady, all things considered.

Assessing today's narratives on rising bond yields

Here are some other narratives on the recent rise in bond yields, and our views as to why these catalysts may not be as significant as many investors may think:

· **Treasury yields are rising because foreign buyers like China are selling—** It’s not just U.S. Treasury bond yields that have recently been rising; yields of government bonds in other key markets such as the United Kingdom and Japan have been following suit. China recently held about $760 billion in U.S. Treasuries, which is less than 2% of the United States’ total $36 trillion in debt. In fact, data from the U.S. Department of the Treasury hasn’t yet shown any recent decrease in foreign holders of Treasuries; if anything, Treasuries may currently look more attractive given the recent rise we’ve seen in yields, in our view.

- **Treasury yields are rising because of the U.S. government's deficit—** Treasury yields rose after investor demand was low at a 20-year Treasury bond auction on May 21. However, since roughly 2000, there has been a low correlation between Treasury yields and government spending as a percentage of GDP; as spending has increased over the past 25 years, yields have generally declined rather than risen. One narrative we've heard is that 2025 will be the year when that low correlation changes. In our view, potential tax cuts are causing a repricing across the Treasury yield curve as more fiscal stimulus (through tax cuts) will require less monetary stimulus (through interest rate cuts from the U.S. Federal Reserve). As of May 21, the bond market was pricing in only two rate cuts this year, down from four just over a month ago. Government policies are inherently unpredictable. While the stimulative tax cuts that the Trump administration has proposed may ultimately be enacted, our initial view is that this is likely to be modest in helping growth.

- **In a "sell America" trading environment, it's better to move to European bonds—**U.K. bond yields have recently been backing up in a similar manner to Treasuries, so U.S. bonds haven't been the only ones to come under selling pressure. While European bonds have generally outperformed their U.S. peers this year, that's likely the result of the recent easing of inflation in the United Kingdom and rate cuts by the European Central Bank. Yields of European bonds have recently been less than half of the yields of comparably dated Treasuries, suggesting less income potential. We've seen a decoupling of the U.S. dollar and interest rate differentials, as the dollar has weakened relative to other currencies while rates have backed up. We believe that this unusual development is a symptom of recent "sell America" investor sentiment. However, sentiment can sometimes quickly reverse course, which could result in an eventual recovery and a potential source of value for investors.

As for these narratives about the recent rise in global bond yields, our view is that global markets have been trading on momentum and sentiment rather than focusing on macroeconomic trends or fundamentals. While the rise in bond yields may have been unpleasant for fixed-income investors, our view is that the backup in bond yields will eventually hit a peak (with the 10-year Treasury yield hitting resistance in the yield range of 4.60% to 4.80%) before rolling back over. Such a scenario could result in the potential for another attractive buying opportunity.

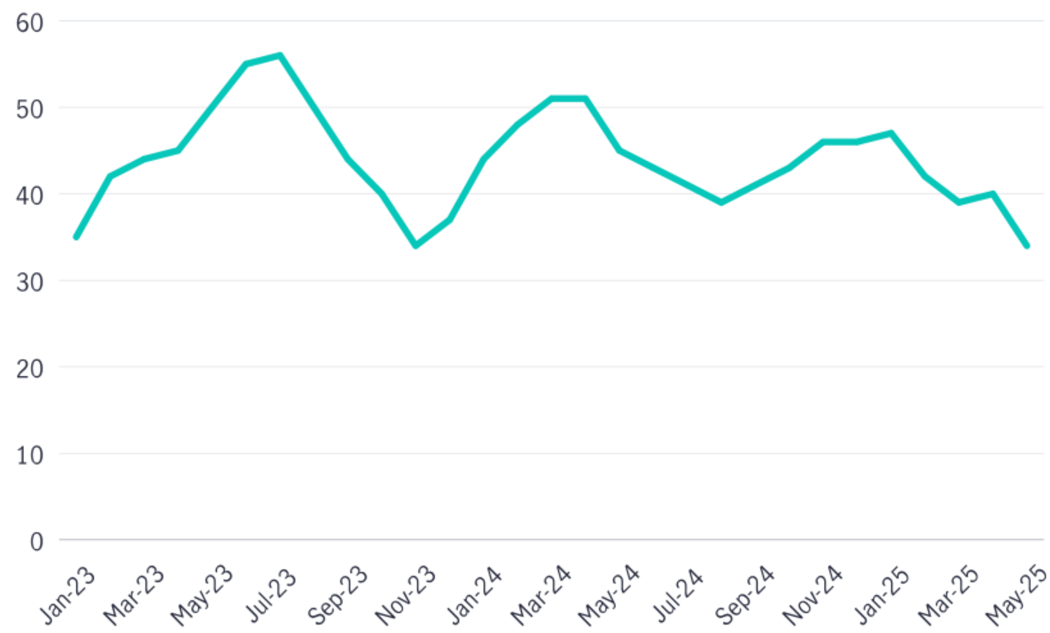
Factors affecting today's fixed-income outlook

Here are some reasons why we believe that the recent backup in bond yields may prove to be self limiting.

· **With housing already against the ropes, mortgage rates could rise even higher**—The U.S. housing market faces many headwinds. In May, the National Association of Home Builders/Wells Fargo Housing Market Index fell to its lowest level since November 2023, reflecting a decline in sentiment as measured by a survey of builders. Active housing inventory for sale just climbed to its highest level since 2020, with more extreme inventory increases in hot spots like Florida. Nationally, the average 30-year mortgage rate recently rose back above 7%, and it typically takes time for higher mortgage rates to filter across the broader economy. While just 4% of mortgages carried an interest rate above 6% in 2022, the share has since grown to 20% and has recently been rising. Housing is a key leading economic indicator and historically has been hugely influential on inflation. Owners' equivalent rent is the largest component of the U.S. Consumer Price Index (CPI), comprising nearly 25% of CPI. Higher Treasury yields result in higher borrowing costs for consumers across mortgages, auto loans, and credit cards. They also mean higher borrowing costs for corporations and governments. This will create a tightening impulse across the economy, likely weighing on growth and inflation, which would then result in lower rates over time. In our view, inflation is likely to continue to moderate as the critical shelter component in CPI continues to slow.

Home builder sentiment has fallen to its lowest point since late 2023

National Association of Home Builders/Wells Fargo National Housing Market Index levels, January 2023–May 2025



Source: National Association of Home Builders, as of 4/30/25. The May 2025 figure was preliminary as of 5/21/25. A higher reading (>50) is an indication that the majority of builders feel confident about the current and near-term outlook for housing. Lower readings signify less optimism among builders. It is not possible to invest directly in an index. Past performance does not guarantee future results.

· **Equities don't like higher rates, either**—With the 10-year Treasury yield recently rising above 4.50%, we've already begun to see equity markets take note, as a higher cost of capital is generally negative for stocks. In particular, the financials sector and regional banks have seen downside pressure due to their sensitivity to interest rates. This pressure can also filter into market segments such as small-cap stocks, which have relatively high exposure to regional banks. This wouldn't be the first time we've had stress in regional banks due to Treasury yields rising; it also happened as recently as 2023. This type of stress typically results in investors moving to more risk-off positioning, which normally creates a bid for relatively lower-risk Treasuries.

The current math for fixed-income investors

While we see these self-limiting dynamics playing out over time, momentum and sentiment appear to be powerful forces for now. Stripping out the momentum/sentiment factor and focusing on the math that currently underpins the bond market, the Bloomberg U.S. Aggregate Bond Index generated a yield of about 4.87% as of May 21, and the duration had dipped to 5.97 years.[1] The data below shows the index's total potential return over a 12-month horizon, based on yield and duration figures starting May 21, given different hypothetical scenarios for the 10-year Treasury bond yield going forward.

Given the starting yield and duration, the 10-year yield would need to move above 5.25% to generate a negative total return over the next 12 months. Conversely, a yield decline to 4.00% would suggest a high single-digit total return in percentage terms over 12 months. We believe that the 10-year Treasury is likely still rangebound, and as yields potentially back up to the higher end of the range, the 10-year offers compelling total return potential and a favorable risk/reward skew, in our view. For investors who think about these allocations on a calendar year basis, the 10-year yield started the year at 4.57%, so the math could be similar for 2025 overall.

Why we think today's math looks favorable for high-quality bonds

Where we are now: bond index data as of 5/22/25	
Bloomberg U.S. Aggregate Bond Index average yield (%)	4.87
Bloomberg U.S. Aggregate Bond Index average duration (years)	5.97
10-year U.S. Treasury bond yield (%)	4.58

The forecast for the index's total return for the next 12 months improves as 10-year U.S. Treasury bond yields decline (%)													
10-Year U.S. Treasury bond yield scenarios	6.00	5.75	5.50	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50	3.25	3.00
Bloomberg U.S. Aggregate Bond Index potential total return	-3.61	-2.11	-0.62	0.87	2.36	3.86	5.35	6.84	8.33	9.83	11.32	12.81	14.30

Source: FactSet, Inc., as of 5/21/25. This is for illustrative purposes only. This table shows hypothetical performance, assuming there are no spread changes across the U.S. Treasury bond yield curve, holding the yield curve constant. Shading from red to green indicates the degree of negative to positive returns. No forecasts are guaranteed. The Bloomberg U.S. Aggregate Bond Index tracks the performance of U.S. investment-grade bonds in government, asset-backed, and corporate debt markets. It is not possible to invest directly in an index.

While markets have generally produced significant volatility in early 2025, such an environment can create opportunities. The recent bounce in risk assets from equities to Bitcoin has left little value in the markets at current prices, in our view, and shows that markets don't currently appear to care much about value. The best-performing year-to-date U.S. equity segment has been momentum—a non-fundamental factor often associated with risk-on sentiment. In the meantime, the S&P 500 Index's forward price-to-earnings ratio has risen back above 21[1] and European stocks have recently been surging, even as earnings have remained anemic. When looking across asset classes, our assessment is that higher-risk assets have recently begun to look richly valued again, while bonds have become more attractive, especially on a risk-adjusted basis.

1 FactSet, as of 5/21/25.

Important disclosures

The Bloomberg U.S. Aggregate Bond Index tracks the performance of U.S. investment-grade bonds in government, asset-backed, and corporate debt markets. The S&P 500 Index tracks the performance of 500 of the largest companies in the United States. It It is not possible to invest directly in an index.

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