Bond yields push higher

Key takeaways

Last week saw the cost of government borrowing rising around the world as bond yields returned to multi-year highs amid heightened concerns over debt levels and the ongoing Iran war.

Global bond yields push higher

Last week was branded as a 'rout' in global bond markets with the yields on government bonds rising to multi-decade highs (meaning their prices were at record lows) in the US, UK, Germany and Japan. A combination of renewed Middle East tensions and inflationary fears, ongoing concerns as to ever-growing government debt piles, and a Federal Reserve (Fed) chair seen as increasingly 'hawkish' (meaning he favours interest-rate hikes), pushed the yield on 10-year US government bonds to a post-pandemic high early last week. This reverberated through global bond markets.

Investor demands for greater rewards for owning government debt are raising borrowing costs, limiting options when it comes to spending. Meanwhile, being forced to refinance maturing debt at higher rates progressively increases government interest-repayment costs.

UK's borrowing costs reach 18-year high

Amid a global sell-off in government debt, the yield on 10-year UK government bonds (gilts), hit an 18-year high of 5.2% last week (yields move inversely to prices). This took UK borrowing costs to their highest levels since the financial crisis. Gilts suffered more than other government bonds reflecting the UK's heightened vulnerability to energy shocks, its precarious public finances and an untested new government. It's estimated that the rise in 20-year gilt yields will likely add an extra £6bn to incoming Chancellor John Healey's borrowing costs, further reducing the 'fiscal headroom' available.

On Friday, Bank of England Governor Andrew Bailey highlighted a range of "structural challenges", reinforcing that interest rates might need to stay higher for longer. Markets expect only a 10% chance of a UK rate hike next week, with a 60% chance in November.

US economy adds 162,000 jobs in August

The much-watched US Labor Department survey on non-farm payrolls surprised forecasters last week by adding 162,000 new jobs in August compared with consensus estimates that were for barely a third of this.

With US unemployment at 4.1%, the non-farm payrolls data contrasts with last week's ADP employment reading, but they both support the continuing pattern of benign US labour market resilience. The surprising strength of the labour market prompted traders to adjust the odds of a coming rate hike. Two-year US government bond (Treasury) yields, which reflect near-term rate expectations, rose to their highest since January last year. Along with this week's inflation data, the figures will help inform the Fed's Open Market Committee when it meets to set US interest rates next week.

For more in-depth commentary from our investment team, please see our latest Investment Views article and Quarterly Outlook video.

Market moves

Global stock market indices made modest gains thanks to positive progress for most regional stock markets.

Japanese shares outperformed those elsewhere. While emerging market and US shares were ahead, UK shares were only marginally so, while European shares lost ground.

UK government bonds were modestly positive while US government bonds retreated marginally amid rising yields in global bond markets. Gold declined almost 3% paring its 2026 gains to just 0.6%.

What to look out for this week

Today promises German industrial production numbers alongside the latest European readings for employment and GDP growth. Tuesday brings UK retail sales and Japanese GDP growth numbers.

The ECB's latest interest-rate decision is due Thursday alongside US PPI (Producer Price Inflation), the Fed's preferred leading indicator for CPI inflation, and jobless numbers.

Friday brings a crowded mix of UK GDP, industrial and manufacturing production numbers alongside US core inflation and CPI (Consumer Price Index) numbers.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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