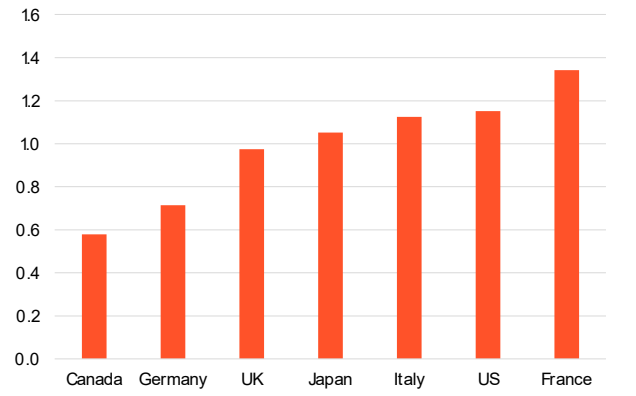
Economics
Chart of the Week

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2 October 2026

Surging yields: a tale of sinners and spreads

Year-to-date increase in 10-year sovereign bond yield (ppt)



Sources: Bloomberg, Berenberg

- **Back to normal – mostly:** Global bond yields have surged back to levels that we consider roughly normal after the 2010s aberration. In the wake of the financial crises of 2007-09, various forces had suppressed bond yields: post-crisis deleveraging, tighter fiscal policies, a global savings glut, accelerated globalisation, and central bank bond purchases ("quantitative easing"). These forces have now mostly reversed. As a result, central banks must set higher interest rates closer in line with the long-term averages to reach their inflation goals. But for some fiscally challenged countries, such as France and the US, the bond market rout signals trouble ahead.
- **Too fast, too far:** Even larger rises in benchmark 2-year yields than 10-year yields in most sovereign bond markets indicate that a change in expectations for policy rates explains much of the jump in yields year-to-date. Investors now price in three or four interest rate hikes from the key central banks on both sides of the Atlantic. That seems a bit overdone to us. Whereas these central banks will likely raise rates further in the next few months, we expect them to stay on hold in 2027 as a likely correction in oil prices will ease inflationary pressures on its own. If so, yields could decline slightly once central banks signal a pause in the rate hike cycle.
- **The message is in the spread:** Although the Iran-related energy price shock has lifted headline inflation across much of the globe, the rise in yields has been uneven. Yields include higher country-specific risk premia. Higher financing costs could push governments with the most egregiously unsustainable fiscal policies into a doom loop. France and the US have suffered the largest increase in their 10-year government bond yields this year, consolidating their positions at the top of our list of fiscal concerns (see chart). Higher financing costs make their fiscal trajectories even less sustainable, which in turn adds to the risk premia in yields – see US: heading for a fiscal crunch. The spread of French OAT 10-year bonds over German Bunds has widened to 140bp, the highest since 2002.
- **The trouble in Paris:** French politics seems paralysed, with a risk it could get worse. The minority government of Sébastien Lecornu is struggling to pass a budget to prevent a rise in the public deficit from 5.4% in 2026 to 6% in 2027. The right-wing frontrunner for the presidential election next spring, Marine Le Pen, is promising unaffordable policies including an even lower retirement age. The left-wing firebrand Jean-Luc Mélenchon, who may run against Le Pen in the final round of the vote on 2 May if the centre-right cannot agree on a joint candidate, wants to cancel the public debt held by the central bank. While that would send shockwaves through markets, it would not even help with fiscal sustainability as the interest on these bonds usually comes back to the Treasury as central bank profit anyway.
- **Crisis ahead?** Unless the key players in France heed the message of the spread soon, markets may force France to correct its fiscal course by refusing to fund the deficit. Of course, the European Central Bank (ECB) could help. But the ECB would not bail out France without a return to more sustainable policies – see Marine: get ready to meet Mr Bond. We still expect France to muddle through at least until the presidential election. However, the surge in yields raises the risk that the moment of truth for France may come even beforehand. With or without a crisis, France will be forced to change tack as printing its own money by leaving the euro is not an option.
- **Less beta for Burnham:** The spread of UK government bond yields over the rest is declining, suggesting that new Prime Minister Andy Burnham has so far succeeded in convincing investors he will continue the fiscal consolidation that his predecessor began. So long as the new administration does not surprise the market with higher borrowing in the 28 October budget, UK government bond yields should fall back into the international pack next year.

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