Why Is the Bond Market Under Pressure?

Bond markets have been at the center of recent economic discussion. Yields have risen sharply around the world, and the United States is a significant part of that move. On October 7, the 10-year Treasury yield climbed above 5.35%, its highest level since 2002, while the 30-year yield reached approximately 5.70% [1]. Yields have eased since then [2], but the bond market remains under pressure. U.S. Treasury yields are particularly important because they serve as a benchmark for borrowing costs across the economy, influencing everything from mortgages to other forms of debt.

Four factors are driving this pressure: inflation fueled by higher oil prices, strong economic growth, a hawkish Federal Reserve, and growing government and corporate borrowing meeting uneven investor demand. These forces are closely connected. In this article, we'll explain each factor, the behavioral science behind investor decisions, and how your financial advisor can help you put it in context.



Source: Macrotrends, 10-Year Treasury Rate – 54 Year Historical Chart.

Inflation fueled by higher oil prices

The U.S.-Iran war, which began in late February, has kept oil prices elevated and volatile. After easing over the summer, Brent crude climbed back above $100 a barrel in September as fighting intensified, while U.S. crude reached $96.05 [3]. That surge is still feeding through to consumer prices: the Consumer Price Index rose 0.4% in October, above the 0.3% economists expected [4].

Inflation matters to bond investors because it erodes the purchasing power of fixed payments. Investors demand higher yields to compensate, which is one reason yields tend to rise when inflation does. And when higher oil prices feed into transportation, production and consumer costs, inflation can prove harder to bring down.

Strong economic growth is keeping the economy running hot

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At the same time, the U.S. economy continues to grow faster than expected, driven in part by the AI investment boom and resilient consumer spending. GDP grew at a 3.4% annual pace in the third quarter, ahead of the 3% forecast [5].

While growth is beneficial to many parts of the economy, strong growth can create additional pressure on bond markets. Strong demand can keep inflation elevated, which makes investors less confident it will fall quickly. As a result, investors may demand higher yields on longer-term bonds to compensate for the risk of persistent inflation, while the Federal Reserve has less reason to lower interest rates.

A hawkish Federal Reserve

In response to persistent inflation, the Federal Reserve has maintained a hawkish monetary policy, keeping interest rates elevated to cool economic activity and bring inflation under control. The Fed raised its benchmark interest rate by a quarter point in September, then held at 3.75%–4% in October [6].

Interest rates and bond yields are closely connected. When the Fed raises its benchmark rate, newly issued bonds generally need to offer higher yields to remain attractive to investors. This also affects existing bonds. Older bonds typically pay a fixed interest rate, so their market value falls when newly issued bonds begin offering higher returns.

Investors are increasingly preparing for the possibility that interest rates will remain elevated for longer. With inflation persistent and economic growth strong, investors are anticipating fewer rate cuts and potentially further increases [7]. This puts upward pressure on bond yields, as investors adjust to the prospect of higher interest rates for longer.

Rising debt, uneven demand

Beyond interest rate expectations, the amount of borrowing across the economy is also putting pressure on bond markets. Technology companies are borrowing heavily to fund the AI boom, while the U.S. government continues to borrow to finance its budget deficit. By July, six technology companies accounted for almost 15% of U.S. investment-grade corporate bond issuance, and Amazon's $25 billion offering was the seventh deal of that size this year [8]. The U.S. government is also borrowing more, with its deficit reaching $2 trillion in fiscal 2026 [9].

This growing supply of bonds is meeting uneven investor demand. Investors have not stopped buying but are demanding higher returns to absorb the additional debt. Amazon's July offering drew weaker demand than its March deal, and the company paid extra yield on its longest bonds [10]. August's 30-year Treasury auction cleared at 5.216%, the highest since 2001 [11].

When investors are less willing to absorb the available supply at current yields, issuers must offer higher returns to attract buyers. This pushes up borrowing costs across the market. Treasuries and corporate bonds also compete for investor capital, while corporate yields are priced relative to Treasury yields, meaning pressure in one market can spill over into the other.

Together, these forces reinforce one another, keeping yields elevated and making bond markets increasingly sensitive to economic data and Federal Reserve signals.

The behavioral side of bond markets

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These economic forces are only part of the picture. Investor psychology can also shape how people respond to market movements, particularly when yields rise and bond prices fall. A few common tendencies help explain why:

- *Loss aversion:* Investors tend to feel losses more intensely than equivalent gains, which can make falling bond prices harder to tolerate.
- *Herd behavior:* Investors may follow widespread selling rather than assess whether a market reaction warrants a change to their own portfolio.
- *Recency bias*: Recent inflation and interest rate movements can make investors assume current conditions will continue indefinitely.

These tendencies are normal but recognizing them can help investors avoid making long-term decisions based on short-term market movements. Taking a step back, considering the bigger picture and revisiting decisions in the context of long-term goals can help maintain perspective when markets are uncertain.

How your financial advisor can help

Understanding what is happening in the bond market is useful, but knowing what it means for your own financial situation is equally important. Your financial advisor can help put market developments into context, considering your goals, time horizon and overall financial plan.

Conclusion

Persistent inflation, resilient growth and expectations for higher interest rates are changing the returns investors demand, while heavy government and corporate borrowing increase the debt the market must absorb. Together, these forces are keeping yields elevated.

Understanding what is driving high yields can help investors look beyond short-term market movements. With the guidance of a financial advisor, you can keep your decisions grounded in your long-term goals, even as market conditions change.

Sources

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