Market Commentary Blog

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Global Government Bond Yields

2- & 10-Year Government Bond Yields

Country	2-Year		10-Year	
	Yield	12-Month Change (Basis Points)	Yield	12-Month Change (Basis Points)
Australia	3.73%	-4.6	4.38%	28.4
Canada	2.55%	-160.1	2.96%	-54.8
China	1.22%	-89.1	1.62%	-80.7
France	2.17%	-46.7	3.11%	29.5
Germany	2.02%	-58.8	2.38%	6.7
Italy	2.32%	-90.4	3.50%	-37.5
Japan	0.71%	61.2	1.24%	52.3
Switzerland	0.03%	-93.1	0.31%	-52.7
United Kingdom	4.15%	-32.7	4.49%	48.3
United States	4.25%	-22.3	4.53%	37.3

Source: Bloomberg. As of 3:00PM CST on 2/3/25. **Past Performance is no guarantee of future results.**

View from the Observation Deck

Much has changed since the last time we updated this post just over one year ago. While not in today's table, perhaps the most notable change is the global easing of central bank policy rates, which began with the Swiss National Bank in March 2024. Since then, the central banks of all but two of the countries represented in today's table lowered their policy rates. The only exceptions are Japan (policy rate increased by 0.60%) and Australia (unchanged). In the U.S., for example, the Federal Reserve ("Fed") lowered the federal funds target rate three times, from 5.50% (upper bound) on 7/26/23, to 4.50% on 12/19/24.

The real yields (yield minus inflation) offered by 10-year government bonds increased across most of the globe.

As shown in the columns marked "12-Month Change (Basis Points)", the yields on most of the longer term government bonds in today's table increased over the past 12-months, providing ballast to real yields. In addition, many major economies saw disinflation over the period (discussed in more detail below). As of 2/3/25, eight of the ten countries represented in today's table had a positive real yield on their 10-year note (up from five the last time we posted on this topic). The eight countries and their respective real yields are as follows: Italy (2.00%); U.K. (1.99%); Australia (1.88%); France (1.71%); U.S. (1.63%); China (1.52%); Canada (1.16%); and Germany (0.08%).

Headline inflation declined substantially since our last post but remains elevated in several of the world's largest economies.

While not presented in today's table, the pace of inflation, which was the impetus for elevated policy rates, fell below the target rate in all but four countries (the U.S., the U.K., Japan, and Germany). In the U.S., inflation's resilience sits at the forefront of the continued debate regarding the Fed's path moving forward. In December 2024, inflation, as measured by the trailing 12-month rate of change in the consumer price index (CPI) stood at 2.9%, up 0.5 percentage points from its most recent low of 2.4% in September 2024. Notably, SuperCore inflation, a closely watched indicator touted by the Fed, increased at a faster rate in 2024 than it did in 2023, according to Brian Wesbury, Chief Economist at First Trust Portfolios, LP.

The yield curve between the U.S. 10-Year Treasury Note (T-note) and the 2-Year T-note disinverted in 2024.

Historically, an inverted yield curve has been a fairly accurate indicator of an impending economic recession. Data from the Federal Reserve Bank of San Francisco shows that an inverted yield curve has been a precursor to each of the last 10 economic recessions in the U.S. since 1955. After 783 consecutive days, the yield curve between these two benchmarks disinverted on 9/4/24, marking the end of the longest inversion in history. Fortunately for U.S. investors, a recession has yet to materialize, but we may not be out of the woods yet, in our opinion.

Takeaway

Despite recent cooling, inflation remains stubbornly high in several of the major economies covered in today's table. Case in point, headline inflation readings are above stated targets in the U.S., the U.K., Japan, and Germany. Despite declining central bank policy rates, most of the countries in today's table saw 10-year yields climb year-over-year. That said, short term interest rates fell among all but one country (Japan). We expect central bank policy rates will remain elevated in countries where inflation has reaccelerated but recognize that these decisions are largely data dependent. Should these economies face substantial stagnation their central banks could lower short term rates once again. We will continue to monitor the situation and report back as new developments occur.