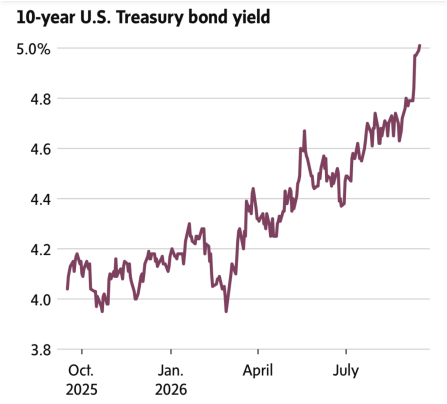
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"Fever" was how Scott Bessent, America's treasury secretary, described the spike in us government-bond yields as he sought to justify a controversial intervention to help the market return to normal. He also promised more dramatic intervention should the delirium persist. Yet the more appropriate metaphor for what has been happening to the bond markets comes from forestry: the markets are attempting a controlled burn to make room for new and more promising drivers of economic growth. And Mr Bessent's intervention risks whipping up a blaze that could cause damage well beyond America.

In the past fortnight or so, the yield on America's ten-year government bond rose from under 4.7% to almost 5%, where it hovered until, on September 14th, it briefly crossed that level -once seen by market-watchers as extremely unlikel, for the first time since 2023. The move in the 30-year has been even larger, pushing that yield above 5.35%, at a time when budgetary interest payments have risen sharply and now consume around a fifth of tax revenue. America is funding its budget deficit at borrowing costs not seen in two decades or so, while refinancing maturing bonds issued at much lower rates in a debt stock that has doubled to $40T in just ten years. [1]

The effects are being felt beyond the budget, including in politically sensitive areas such as mortgages, where the average 30-year rate is now over 7%. This aggravates the top issue on voters' minds ahead of the midterm elections: affordability. It also raises corporate borrowing costs and risks diverting capital away from a stock market that has been rewarding investors with a series of record highs this year. [2]

No wonder Mr Bessent was keen to intervene. On August 19th he announced that he would target longer government bond maturities through what's known as a "twist": buying back these bonds by issuing very short-dated ones or, though this has not been officially confirmed, using the $1trn that sits in the Treasury General Account, which is meant to be for cash management. [3]

The rationale for this unusual intervention has evolved as criticism of it has grown. It has been characterised at different moments as reducing yields, improving market functioning and compensating for summer illiquidity. Underpinning this is the "fever" notion: that the spike in yields is a temporary and reversible phenomenon that intervention can help address.

The most important driver of higher yields lies elsewhere and is unlikely to be temporary. It reflects a fundamental imbalance between the demand for bond financing and the ability to meet that demand without elevated yields.

The demand for bonds has been turbocharged by the need to fund a large increase in corporate capital expenditure, much of it related to the development and application of artificial intelligence. This has led financiers to require greater compensation.

This higher demand comes at a time when historically reliable buyers and holders are less so. China has been reducing its holdings of Treasuries amid high geopolitical tensions. Gulf states are redirecting resources to domestic needs, including rewiring supply routes and reconstruction. Japan's intervention in its currency markets involves selling American securities to raise dollars to buy yen. And the Norwegian sovereign-wealth fund, also a traditionally long-term holder, is reconsidering its exposure to Treasuries.

The resulting imbalance is cleared at higher yields unless demand collapses and the economy weakens substantially, which is not in America's interest. ai's productivity promise raises the hope of the type of sustainably higher economic growth that can help improve debt ratios and income distribution. Unleashing this potential while mitigating the risks is not just an economic priority but also a national-security one.

Rather than experiencing a fever, the market is trying to make room for promising investments that can materially enhance the wellbeing of this and future generations. The right policy response is to help create space for new capital expenditure. **This means less borrowing by the government to fund deficits and the reversal of policy moves, such as the excessive weaponization of trade, investment and the payments system, that push away foreign investors**. Repeated rounds of market intervention, conversely, risk causing greater volatility, contaminating the dollar, increasing the risk of systemic financial instability and causing economy-wide resource misallocations. They could also threaten the global standing of Treasuries and the dollar.

What is at stake goes beyond the ability to profit from a transformational innovation while limiting its collateral damage and unintended consequences. What happens in America with bond yields and ai does not stay there. Its implications are felt internationally, at a time when the global economy has already lost much of its physical, financial and human resilience.

It is time to stop thinking of higher Treasury yields as an aberration. They are a loud call for the adjustments needed to unleash stronger productivity and growth.

Thanks for reading!

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1-3, The Economist: September 2026

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