US Treasury bonds

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Treasury yields climb to threshold as investors bet Democrats poised to win control of Senate

The possibility of additional stimulus under a Joe Biden administration have buoyed investor sentiment even as the US confronts a wave of new coronavirus cases © Bloomberg

Colby Smith and **Eric Platt** in New York 2 HOURS AGO

US 10-year Treasury yields hit 1 per cent for the first time in more than nine months as investors bet that Democrats were poised to capture the Senate, improving Joe Biden's prospects of pushing his agenda through Congress.

The yield on the 10-year note rose 0.06 percentage points to 1.02 per cent in Asia trading on Wednesday as Democrat Raphael Warnock won one of two US Senate run-off elections in Georgia. Yields rise when a bond's price falls.

Victories in both Georgia Senate races would give Democrats and senators who caucus with the party 50 seats in the upper chamber, which along with the tiebreaking vote held by the vice-president would put them in control of both houses of Congress and the White House.

The back-up in yields extended a five-month-long sell-off in US government debt that accelerated in early November on the BioNTech/Pfizer Covid-19 vaccine breakthrough.

$42tn

Size of the US equity market

The pace quickened in December after Congress agreed a $900bn stimulus programme after months of stalemate. Democrats have repeatedly called for more generous aid to individuals and direct support to state and local governments, while Republicans have advocated for less spending.

The possibility of additional stimulus under a Biden administration has buoyed investor sentiment even as the US confronts a wave of coronavirus cases and continuing economic malaise before a vaccine is available to most Americans.

Fund managers have positioned for an economic revival later in 2021 that they believe will help rekindle inflationary pressures.

One market measure of inflation expectations over the next decade has risen accordingly. The 10-year break-even rate, which is derived from prices of US inflation-protected government securities, breached 2 per cent this week — a level last reached in late 2018.

Low rates have helped support rising valuations in the $42tn US equity market and a reversal could weigh on share prices. Futures trading pointed to a slide in the value of tech stocks — which have been propelled by rock-bottom rates — when markets open on Wednesday.

The yield on the 10-year Treasury note fell below 1 per cent for the first time in history in March amid a pandemic-induced market sell-off.

The Federal Reserve responded by slashing interest rates to zero and intervening heavily in short-term funding markets. It also pledged to buy an unlimited quantity of US government debt and rolled out 13 lending facilities to support debt markets, including those for junk bonds and municipal bonds.

Those actions, coupled with the unprecedented economic contraction caused by coronavirus-related lockdowns, suppressed yields and drastically cut the government's borrowing costs even as it sold a record amount of new Treasuries to fund stimulus packages passed by Congress.

Many strategists foresee the benchmark Treasury yield rising as high as 1.25 per cent by next year, but it is likely to struggle to sustainably trade above that level. They cite the Fed as a potential impediment to dramatically higher yields, given the central bank's focus on keeping financial conditions accommodative to support the nascent economic recovery.