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What Is Driving the Rise in Advanced Economy Bond Yields?

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The nominal bond yields for advanced economies rose sharply during the first quarter of the year. This note analyzes the drivers of this increase across the jurisdictions and tenors of the yield curve. A key investor focus, in particular, has been the rise in the nominal bond yields in the United States, which has had notable global financial stability spillovers. The analysis indicates that the rise in inflation expectations is the primary driver of the rise in US nominal bond yields over the near term, whereas, the rise in real yields has been the major contributor to the rise in longer-term yields. The change in term premiums has also played a key role in driving both the longer-term inflation breakeven and real yields. Considering other major advanced economies, while inflation expectations have risen across the board in the near term, change in real yields appear more pertinent a driver for shifts in longer-term yields.

INTRODUCTION[1]

Advanced economy bond yields rose sharply since the beginning of 2021, with a particular investor focus on the United States. The nominal 10-year US Treasury yield increased almost 80 basis points at its peak[2] in 2021, reflecting, in part, marked improvements in the economic outlook as recovery from the coronavirus disease (COVID-19) pandemic accelerates. The rise in US yields has implications for a wide range of securities around the world that are priced off the US yield curve. Indeed, the increase in yields has already passed through to the pricing of other advanced economy and emerging market bond yields and further increases could have significant spillovers to the global financial system, as discussed in the April 2021 *Global Financial Stability Report* (IMF 2021).

This note analyzes the drivers of the rise in nominal yields both in the United States and in other major advanced economies to allow policymakers and market participants to assess the interest rate outlook at a

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[2] *The charts are refreshed as of the end of May 2021*

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