

Rising sovereign yields point to a more restrictive financial environment

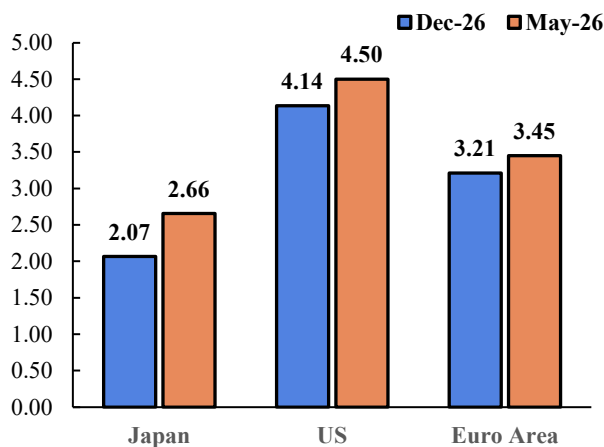
Sovereign bond yields have increased significantly across major advanced economies in recent months, marking a clear shift from the declining interest rate environment that had taken hold following the post-Covid pandemic tightening cycle. What was shaping up as a gradual normalization towards lower inflation and easing monetary policy, has instead given way to a more challenging scenario, characterized by renewed price pressures, a reassessment around the path of policy rates, and rising fiscal borrowing needs.

These forces are common to the major advanced markets and help explain the scale and persistence of the recent increase in sovereign yields. In this context, higher yields reflect a broad repricing of macroeconomic conditions. In this article, we discuss how the key factors are shaping yield dynamics in the US, the Euro Area, and Japan.

now anticipate policy rates to remain higher for longer, shifting out previous expectations for monetary easing.

At the same time, fiscal dynamics have become an increasingly important driver of US sovereign yields. Public debt has risen to around 120% of GDP, while the fiscal deficit remains elevated at approximately 6–7% of GDP, translating into an annual Treasury net issuance exceeding USD 2 trillion and significantly increasing the supply of long-duration securities that the market must absorb. This comes at a time when foreign official holdings of US Treasuries are no longer expanding in line with rising issuance. The combination of increasing supply and more selective demand is reinforcing the upward pressure on US sovereign yields.

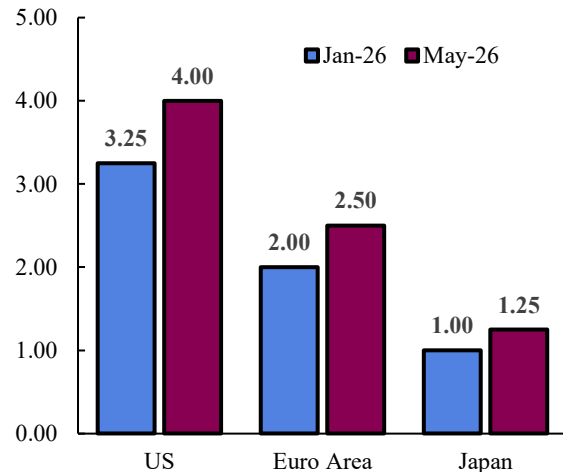
Sovereign Yields in Major Advanced Economies
 (% monthly, end-of-period)



Source: Haver Analytics, QNB Economics

In the United States, the rise in sovereign yields reflects the combined effect of persistent inflation pressures, a reassessment of monetary policy expectations, and larger fiscal borrowing needs. The recent surge in energy prices, as well as ongoing tariff-related pressures, have contributed to keeping inflation above the 2% target. Headline inflation has recently increased to around 4.2% year-on-year, while core inflation remains elevated at 2.9%, pointing to underlying price pressures that are proving difficult to fully contain. As a result, markets

Year-End Policy Rate Expectations
 (% expectations for December 2026)



Source: Bloomberg, QNB Economics

In the Euro Area, the rise in sovereign yields is primarily driven by renewed inflation pressures and a reassessment of monetary policy expectations. The recent surge in oil and gas prices has led to a renewed increase in inflation, with the headline measure rising to 3.2% in May. This reversal has challenged the European Central Bank’s progress in bringing inflation sustainably back to its 2% target, prompting markets to reassess the outlook and assign a higher likelihood to rate hikes, reinforcing upward pressure on sovereign yields.

Fiscal dynamics are also beginning to play a more visible role in the Euro Area. The shift toward a more expansionary fiscal stance in key economies, particularly Germany, is expected to increase sovereign borrowing needs and bond issuance over the coming years. At the same time, the reduction of the European Central Bank's balance sheet, as asset purchase programmes are gradually unwound, is reducing the degree of policy support for sovereign bond markets. The combination of higher issuance and reduced central bank demand is contributing to a gradual increase in term premia, thereby reinforcing the upward movement in sovereign yields.

In Japan, the rise in sovereign yields reflects a more fundamental shift in the macroeconomic environment, following decades of ultra-low inflation and exceptionally accommodative monetary policy. Inflation has moved decisively above historical norms, supported by higher imported energy costs and sustained wage growth. This has prompted the Bank of Japan to begin a gradual normalization of monetary policy, including the end of negative interest rates and the removal of yield curve control. As a result, markets now

anticipate a continued increase in policy rates from previously ultra-low levels, exerting upward pressure on government bond yields.

At the same time, structural changes in demand for government bonds are reinforcing this trend. The reduction in the Bank of Japan's bond purchases, together with regulatory changes affecting domestic institutional investors, has weakened traditional sources of demand for long-duration Japanese Government Bonds. The combination of reduced demand and steady supply is contributing to a significant increase in term premia, further amplifying upward pressure on Japanese sovereign yields.

All in all, the rise in sovereign yields across major advanced economies reflects a broad repricing of macro-financial conditions, driven by more persistent inflation, a higher-for-longer outlook for monetary policy, and increasing sovereign borrowing needs. Taken together, these dynamics signal a transition to a more restrictive financial environment, where higher interest rates are likely to weigh more heavily on growth and challenge fiscal sustainability.

QNB Economics Team:**Bernabe Lopez-Martin***Assistant Vice President - Economics
+974-4453-4643**Aisha Khalid Al-Thani**Senior Associate - Economics
+974-4453-4647

* Corresponding author

DISCLAIMER: The information in this publication ("**Information**") has been prepared by Qatar National Bank (Q.P.S.C.) ("**QNB**") which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information's accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient's sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advice from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB's knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.