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Beyond the Headlines

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Multi-Decade Highs: Are We Heading Into A Sovereign Debt Crisis?

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Multi-Decade Highs: Are We Heading Into a Sovereign Debt Crisis?

Long-end government yields have punched to their highest levels in a generation across the developed world, at once. But is it a 'crisis'? The more useful question is what kind of stress this actually is: a default event, or the market repricing the cost of a decade of borrowed prosperity.

Something unusual happened this quarter: **the long end of nearly every major sovereign bond market sold off together**. The US 30-year Treasury yield pushed to roughly 5.25% in September - a 19-year high and the most expensive long-term borrowing for the US government since 2001. Japan's 40-year yield hit a record 4.0% and its 30-year traded near the highest since the tenor was created in 1999. The UK 30-year gilt reached about 5.75%, a level last seen in 1998. France's 30-year OAT touched 4.50%, its highest since the 2011 eurozone crisis, while even Germany's 30-year Bund, the region's risk-free anchor, hit a decade high around 3.40%. This was not one country's problem. It was a synchronised re-rating of the price of long-dated government debt everywhere.

That synchronicity is the story. When bonds sell off because growth is booming, it is a healthy sign. When they sell off while growth is slowing, as they are now, it usually means investors are demanding more compensation to fund governments whose finances they no longer take on trust. This note works through what is driving the move, where the genuine crisis risk sits, and, most importantly, whether 'sovereign debt crisis' is the right frame at all.

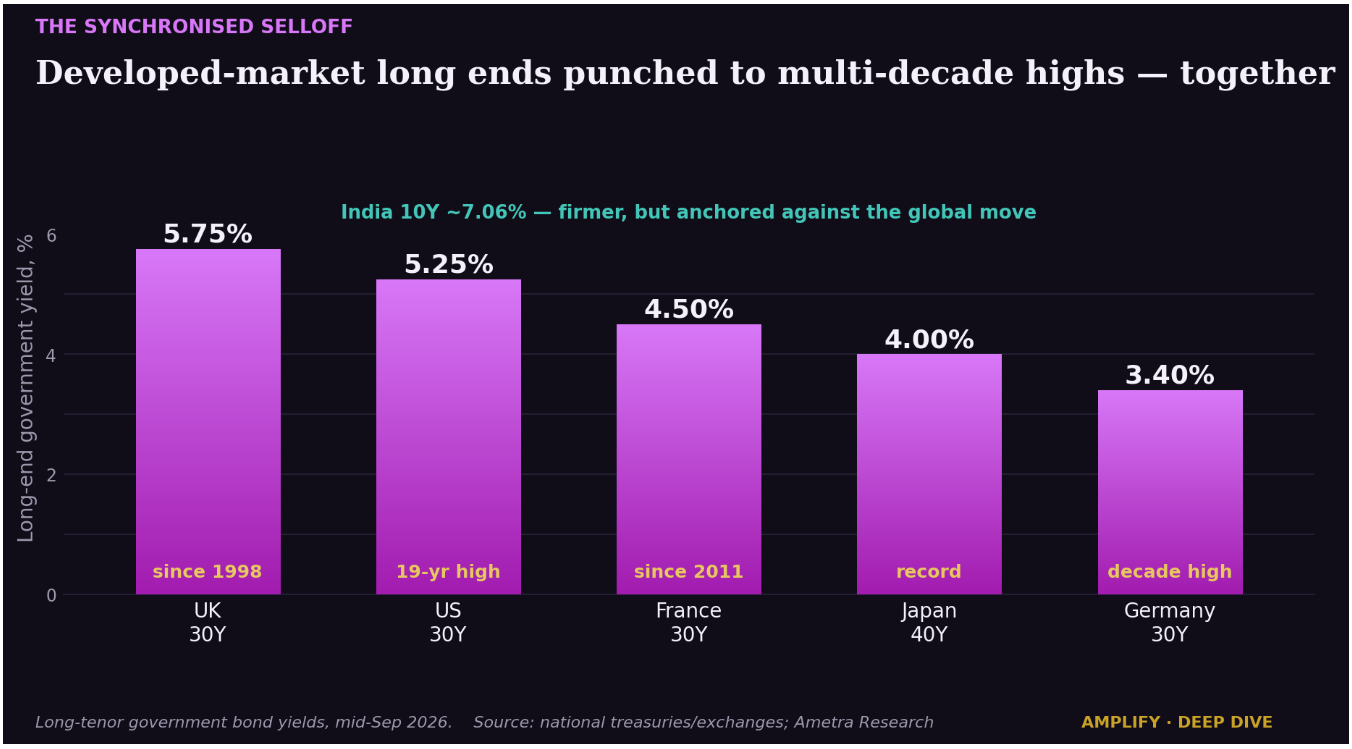
Macro Snapshot (as of 18 September 2026)

Instrument	Reading	Read-through
US 30-year Treasury	~5.25%	19-year high; dearest US long-term funding since 2001
Japan 40-year JGB	~4.00%	Super-long stress; end of the QE/YCC era
UK 30-year gilt	~5.75%	Highest since 1998; fiscal-credibility premium
France 30-year OAT	~4.50%	Highest since the 2011 eurozone crisis; political risk
Germany 30-year Bund	~3.40%	Decade high, even the regional safe asset re-priced
India 10-year G-Sec	~7.06%	Firmer on global spillover, RBI OMO sales.. but anchored
US FY26 deficit	~US$2.0tn (~5.8% of GDP)	Structural, not cyclical, deficits in a non-recession
US federal debt held by public	~101% of GDP	CBO path to ~120% by 2036, above the 1946 WWII peak
US net interest, FY26	~US$1.0tn	Now larger than the entire US defence budget

1. The Move: A Synchronised Global Long-End Selloff

Start with what is unusual. Bond markets normally march to local drums: US yields track the Fed, JGBs track the Bank of Japan, gilts track the Bank of England. This quarter they moved as one, and they moved at the long end specifically, 20-, 30- and 40-year maturities, while short rates were comparatively stable. A selloff concentrated in the long end, across countries, is the signature of a rising term premium: the extra yield investors demand purely for the risk of lending far into the future. It is not a bet on the next rate decision. It is a re-pricing of the cost of holding government paper for decades in a world of large deficits and sticky inflation.

Each market has its own trigger. Japan's super-long yields have surged on Prime Minister Takaichi's expansionary fiscal agenda and record ministry budget requests, against a market that is finally living without the Bank of Japan as the buyer of last resort. The UK carries a visible fiscal-credibility premium as the Chancellor struggles to close the gap. France is the sharpest case: political paralysis over a budget with roughly EUR 44 billion of proposed cuts, a confidence vote, and foreign investors, notably Japanese, quietly stepping back from OATs. But the common thread is bigger than any one election: after fifteen years in which central banks absorbed the supply, governments are now issuing record amounts of long debt into a market of price-sensitive buyers, and that market is setting a higher price.



2. Why Now? A Fiscal Risk Premium, Not a Recession

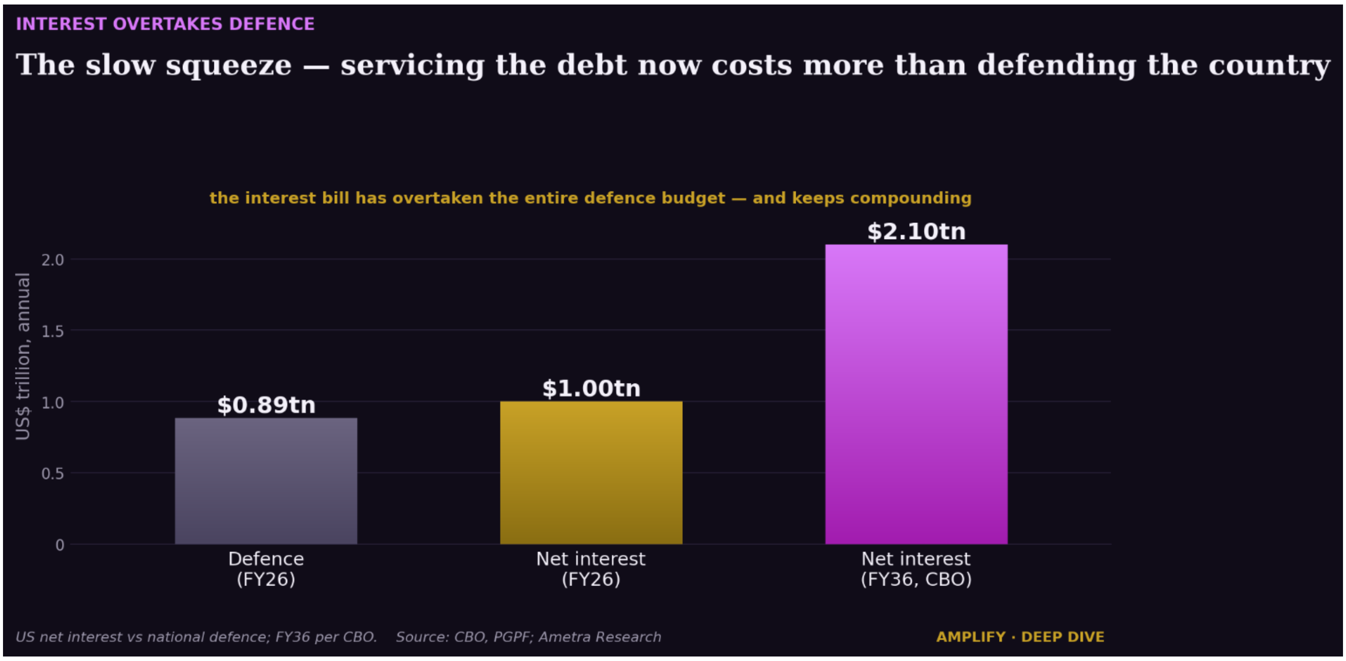
The textbook reading matters here. When long yields rise because the economy is overheating, the cure is a slowdown. But this selloff is happening alongside decelerating growth, and that combination, rising yields with softening activity, is the fingerprint of a fiscal risk premium rather than a conventional cycle. Investors are not demanding more yield because they expect a boom; they are demanding it because they are being asked to finance permanently large deficits and are less confident that inflation will stay contained over a 30-year horizon.

Three forces are stacked.

1. **Supply**: deficits across the developed world are structurally wide, so the volume of long-dated issuance is enormous and still growing.
2. **The buyer base** has changed. Central banks are shrinking balance sheets rather than expanding them, and the marginal buyer is now a price-sensitive pension fund, insurer or foreign reserve manager who demands compensation.
3. **Inflation** is no longer reliably low: the same energy-and-geopolitics complex we mapped in our crude and food-inflation work keeps the tail risk of higher-for-longer inflation alive. Term premium has risen from its 2020 lows but, tellingly, still sits below its long-run average, which means this re-rating may not be finished.

3. The Fiscal Arithmetic: The Slow Squeeze

Markets are demanding a premium because it is visible in the arithmetic. The US federal deficit ran to ~US$2 trillion in the first eleven months of FY2026 which is about 5.8% of GDP in an economy that is not in recession. Federal debt held by the public is around 101% of GDP and, on the Congressional Budget Office's path, climbs to ~120% by 2036, surpassing the post-war peak of 106% set in 1946. Most striking is the interest bill: net interest of roughly US$1.0 trillion in FY2026 has now overtaken the entire US defence budget, and is set to keep compounding toward US$2.1 trillion by 2036.



This is where the danger is real, but a slow danger, not a sudden one. Higher yields raise the interest bill, which widens the deficit, forcing more issuance, which pressures yields higher again, a self-reinforcing loop that tightens gradually rather than snapping. It is a squeeze on fiscal space and on the room for public investment, not an imminent default. Market's job right now is to impose discipline through price; the risk is that the price it demands rises faster than governments can adjust.

4. Where the Real Crisis Risk Actually Sits

Here the distinction that the headline blurs becomes decisive:
The United States, the United Kingdom and Japan borrow in their own currencies and control their own central banks. They cannot be forced into an involuntary default the way an emerging market can; a government that prints its own money can always meet a nominal coupon.

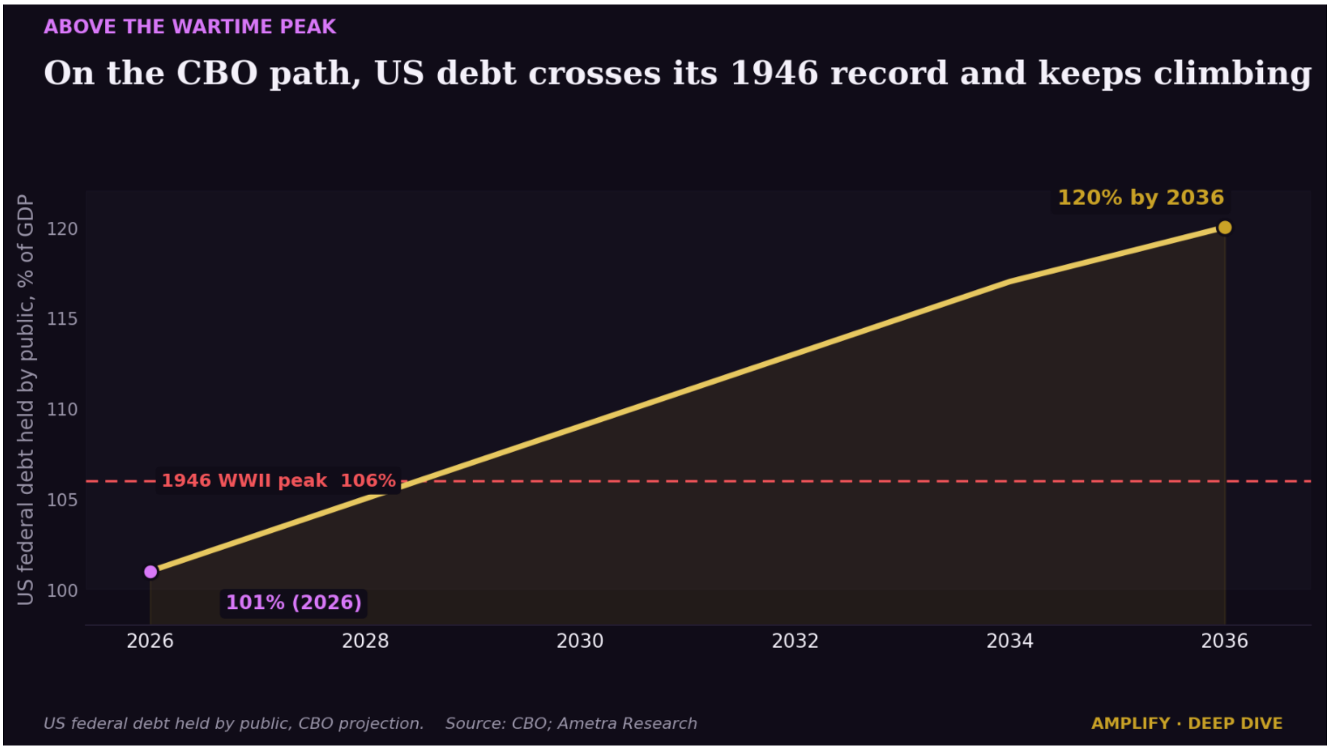
For these issuers the true risk is not default but debasement - inflation and currency weakness that erode the real value of the debt plus the political strain of an ever-larger interest bill. Japan illustrates both the vulnerability and the cushion: its super-long yields are at records, yet the overwhelming majority of its debt is held domestically, which slows any spiral even as the Bank of Japan steps back.

The genuinely crisis-shaped risk sits elsewhere: inside the eurozone. France and Italy borrow in a currency they do not individually control, cannot print, and share with nineteen others. For them a loss of confidence can become self-fulfilling, the classic mechanism of 2011–12, and the only firewall is the European Central Bank's willingness to backstop. France's slide to post-2011 highs on a domestic political impasse is the market probing exactly that fault line. If a sovereign debt crisis in the strict sense arrives, it is far likelier to begin in the eurozone periphery than in Washington, London or Tokyo.

5. Is It a 'Crisis'? Normalisation, With a Narrowing Corridor

Our answer is that today's yields look more like a return to historical normality than the opening act of a default crisis. For most of financial history, long government yields in the 5% range were unremarkable; it was the 2010s era of zero rates and quantitative easing that was the anomaly. What we are watching is the market un-learning that anomaly and re-attaching a normal term premium to government debt. That is uncomfortable. It re-prices every long-duration asset on the planet but it is not the same as insolvency.

The honest caveat is that the corridor of stability is narrowing. Debt is high, deficits are structurally large, term premia are still below average and therefore have room to rise, and the demand base is thinner than it was. The channels through which a repricing could turn disorderly are well known: a failed or 'tailing' bond auction that spooks the market; forced selling by leveraged holders (the UK's 2022 LDI episode is the template); and a Japanese shock that reverberates globally, because a sustained rise in JGB yields can unwind the yen-funded carry trades we flagged earlier and pull Japanese capital home out of Treasuries and OATs. None of these is the base case. All of them are why 'normalisation' should be monitored, not shrugged off.



6. The India Angle - A Relative Anchor, Not Immune

For Indian portfolios, the read-through is more reassuring than the global headline suggests. The 10-year G-Sec sits around 7.06%, firmer on the global spillover and the RBI's planned bond sales, but strikingly anchored against a world where developed long ends are at multi-decade highs. India's structural supports, a captive domestic buyer base, the ongoing global-index inclusion flows, and a credible fiscal-consolidation path, give its debt a decoupling quality we have written about before. The vulnerabilities are external and familiar: a crude spike via the same West Asia risk, and a global term-premium shock that lifts the floor under all emerging-market yields. India is a relative safe harbour within EM fixed income, not an island.

Ametra's Read

This is a repricing of the term premium and a slow fiscal squeeze, and not a 2011-style default crisis. The word 'crisis' is better reserved for where it genuinely applies: the eurozone periphery, and the super-long end in Japan. For everyone else the risk is higher-for-longer discount rates and a compounding interest bill, which is a headwind to be positioned around rather than a cliff to flee. Our stance:

— **Higher-for-longer long ends are the base case:** A structurally higher risk-free rate re-prices long-duration growth equities hardest and favours real-asset value like capital goods, infrastructure, power and defence.

— **Own the front-to-belly, not the long end:** In fixed income, high-quality accrual at the short-to-medium part of the curve is the better risk-adjusted trade; curve steepeners express the term-premium theme directly. Avoid reaching for duration into a rising-term-premium regime.

— **Gold earns its place:** 'Fiscal debasement, policy on hold' is precisely the configuration in which gold works as a hedge, echoing our gold deep dive.

— **Watch the three tripwires:** A tailing US or Japanese auction, forced selling by leveraged/LDI-type holders, and a disorderly JGB move that unwinds the yen carry trade. These are what would turn normalisation into stress.

— **India is a relative harbour:** Indian duration is comparatively insulated by domestic demand and index inclusion; keep the exposure but hedge the external tail via crude and the global term premium.

The bottom line: multi-decade-high yields are real and consequential, but the mechanism is a market imposing discipline on a decade of borrowed prosperity, not a default spiral in the world's reserve issuers. The place to watch for an actual crisis is the eurozone; the place to watch for the contagion spark is Japan.

Positioning Map

Stance	Where	Rationale
Favour	Belly-of-curve exposure in US, UK, German sovereigns	Term-premium stress concentrated at the long end; Fed credibility reduces long-end risk
Favour	US financials benefiting from a higher-for-longer front end	Wider net interest margins now more durable given the inflation-fighting stance
Hold	Long-dated (30Y+) sovereign paper in currency-issuing countries	Attractive real yields, but volatility persists until buyer-base questions resolve
Fade	Imminent-default narratives for the US, UK, Japan	Fed hike absorbed calmly, auctions clearing, currency still absorbing the stress
Watch	France's 2027 budget passage and OAT–Bund spread	The one genuinely solvency-adjacent risk in this note; unaffected by the Fed's move
Watch	Japan-US rate differential and repatriation flow data	The largest systemic spillover channel in either direction
Watch	Further Fed dot-plot signals (all 18 officials see another hike, 12 expect two, 4 expect three, 2 expect one)	A second 2026 hike tightens US financing costs while reinforcing credibility

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