*US Treasury Bond Yields Jump as Trade War Calls Safe Haven Status Into Question*

Sara Silano - 9 April, 2025 | 2:59PM

The rise in bond yields comes despite growing expectations that Trump's tariffs will drive the US economy into a recession. The trade war caused US government bond prices to fall sharply on Wednesday, driving up yields in a paradoxical development as the global economy faces a recession.

A key safe-haven asset, Treasuries usually offer lower yields when investors seek shelter from volatility. Yields are instead up, even as economists have been raising the probability of a recession happening this year in the United States, with Morningstar's Preston Caldwell placing the likelihood at 40%-50%.

If yields remain high, making borrowing more expensive, this could exacerbate the challenges for the US economy after dramatic trade disruptions have already put it on feeble footing.

Yields on the 10-Year Treasury have risen to 4.37% from 4.29% a day earlier. Yields on longer-maturity bonds are also up, with the 30-year yield touching 5% on Wednesday morning, compared with 4.84% at Tuesday's close.

"The 'sell America' scenario is becoming tangible again, as Treasuries and US equities are under pressure," says ING FX strategist Francesco Pesole. "That can be a very toxic combination for the dollar. Markets are clearly punishing US assets again after the 104% tariffs on China kicked in."

Senior Morningstar European market strategist Michael Field says, "There is a real fear among investors about the damage this trade war could cause the economy. Bond prices falling and yields rising is just a reflection of this."

# The Role of Hedge Funds in the Treasury Selloff

At this stage, the safe-haven status of US government bonds seems to be faltering, and investors are shunning usual safe assets in favor of cash. In the ongoing selloff, hedge funds have played an important role.

According to a Reuters report on Wednesday, long-term Treasuries were the subject of intense selling by hedge funds that had borrowed to bet on narrow gaps between the prices of Treasuries and the prices of futures on them. This is known as a "basis trade," and involves making leveraged bets to profit from the convergence between the future's price and the bond price as the future contract approaches maturity.

"On the market technicals side, it's widely reported that US Treasury bonds are being liquidated to meet capital and margin requirements as leverage is being unwound and pulled out of capital markets," says Morningstar chief multi-asset strategist Dominic Pappalardo. "Deleveraging is often forced by brokerage houses when volatility spikes, and it can trigger a wave of forced selling that has a compounding effect on asset prices. US Treasuries are a common type of collateral against these leveraged positions, as their traditional stable value and high credit quality work well."

# German Bund Yields Hold Steady

The selloff extended from US to Japanese government bonds, with the yield on the 30-year Japanese government bond rising to a 21-year high. In Europe, however, the yield on the German 10-year bund rose at the opening and then fell back to around 2.62%, almost unchanged from Tuesday's close. The German 30-year bund also held steady, remaining broadly in line at a yield around 3%.

Among peripheral eurozone countries, the rise in yields is significant in Italy, with the 10-year BTP at 3.9% after touching 4.0% at the opening of the session. The spread between Italian and German government bond yields rose to 130 basis points, up from 122 basis points on Tuesday.

## Are Treasuries No Longer a Safe Haven?

Markets are now favoring German government bonds as safe assets, while recession fears are eroding the confidence in the dollar and US government bonds as haven assets.

"The dynamic is unusual. Against a backdrop of macroeconomic slowdown and trade tensions, one would expect buying flow into Treasuries, not selling," says Carlo De Luca, head of asset management at Gamma Capital Markets.

De Luca highlights two possible causes. First is the breaking of basis trades. "The trade, which is highly leveraged, is based on small convergence movements," he says. "Recent tensions have forced many funds to liquidate loss-making positions, selling government bonds and exacerbating the pressure. According to some estimates, total exposure on this strategy exceeds $800 billion."

Second is foreign sales. It is possible that foreign investors sold Treasuries to obtain dollars, although there is no clear evidence. The auction of 3-year Treasuries showed very weak domestic demand, with only 6.2% absorbed by US insurance and pension funds, compared with an average of 19.0%.

The dollar's weakness pushed the EUR-USD pair back above the $1.10 mark. According to Ipek Ozkardeskaya, senior analyst at Swissquote Bank, the euro could draw in some of those seeking a safe haven, adding to its recent gains. "Despite Europe's stimulus plans, German bunds are increasingly seen as an alternative to US Treasuries," she says. "The German 10-year yield has been dropping steadily since mid-March, while the US 10-year spiked from under 4% to over 4.50% in just three sessions."