



Thomas Garretson, CFA

New York, United States
tom.garretson@rbc.com

The year of the ‘bond vigilante’?

Key points

- Global bond markets were rocked in January by another round of sovereign debt fears, sending government bond yields higher.
- Though it’s possible this turbulence could morph into something more problematic for global markets, we think this risk is low this year.
- Ultimately, we view the ongoing rise in Japanese bond yields as a sign the country’s economy is exiting a decades-long stretch of lagging its global peers.

The idea of “bond vigilantes,”—a mysterious cabal of investors who could sell their government bond holdings in protest against, or in fear of, government fiscal profligacy—has been around since the 1980s, predicated on the risk that such an action could send bond yields soaring.

In fact, the story of global bonds over the past 40 years has been one of ever-lower yields. Fears of vigilantes spring up from time to time, a few headlines are written, and they fade as quickly as they appeared.

Budget fears in the United Kingdom sent yields spiking back in 2022, but market stress lasted barely longer than a head of lettuce. The U.S. had its own scare in 2023, as increasing public concern over rising budget deficits sparked fears of larger-than-expected Treasury issuance needs, but there too, the jump in yields dissipated in short order.

January 2026 marks the latest episode, as the 40-year Japanese

Government Bond (JGB) yield jumped by more than 60 basis points at one point to 4.2%—a large move in such a small timeframe in almost any context, and a massive one for a country more famous for its negative yields than high yields in recent years. But in our view, this episode was triggered by factors similar to those that touched off earlier spikes—plans for unfunded tax cuts, presumably to be paid for with debt.

But will this episode last longer? We don’t think so. In another sense, and as the chart on the next page highlights, the rise in Japanese bond yields could simply indicate that the country’s economy—after decades of stagnation, disinflation, and low yields—is reconverging with its global peers.

There are, of course, risks too. The “yen carry trade”—in which investors borrow money in a low-yield currency in order to reinvest it elsewhere with better return prospects—risks being unwound. At the same time, any

Fixed income views

Region	Gov’t bonds	Corp. credit	Duration
United States	–	+	3–7
Canada	+	–	3–7
Continental Europe	–	–	3–7
United Kingdom	=	–	3–7

+ Overweight; = Market Weight; – Underweight
Source - RBC Wealth Management

Produced: Feb. 3, 2026, 12:17 ET; Disseminated: Feb. 3, 2026, 14:30 ET

All values in U.S. dollars and priced as of market close, Jan. 31, 2026 unless otherwise stated.

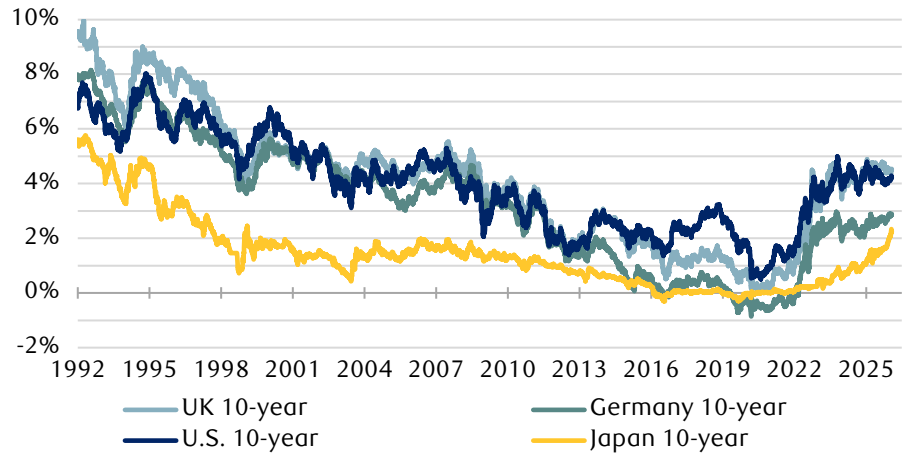
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GLOBAL FIXED INCOME

The great normalization?

Rising Japanese bond yields appear to be merely converging with global trends



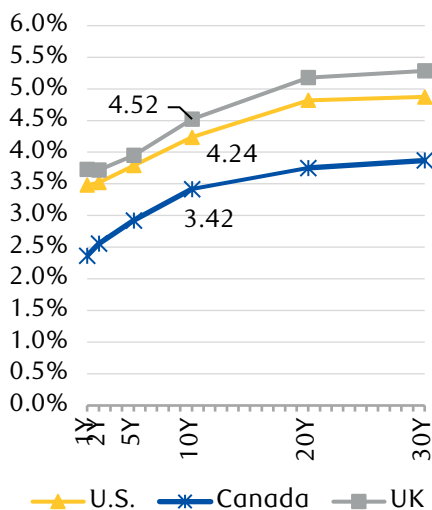
Source - RBC Wealth Management, Bloomberg

type of sharp market move always comes with the potential of “breaking something.”

With central banks seemingly largely done cutting rates, this year could bring heightened focus on sovereign finances. But from a global perspective, we still see a net positive if new policies implemented by

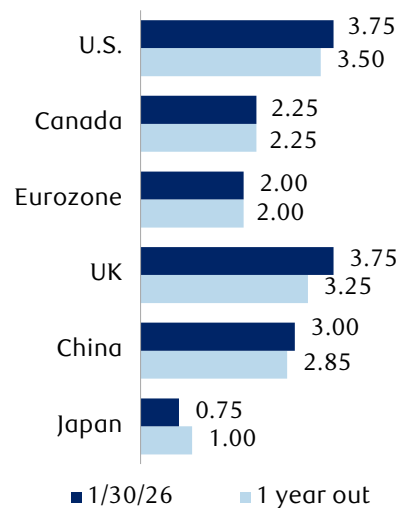
Japan’s government ultimately return its economy to sustainable form, and the ongoing rise in yields—even if chaotic at times—may prove to be little more than a byproduct of that process.

Sovereign yield curves



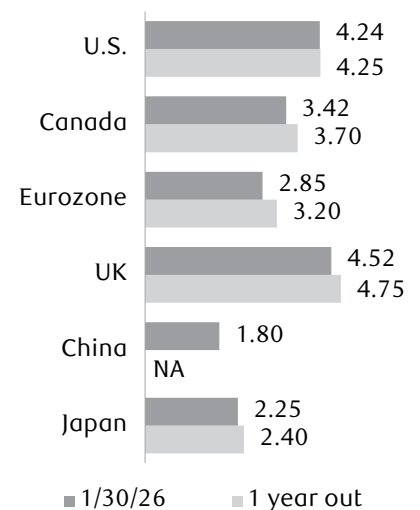
Source - Bloomberg; data through 1/31/26

Central bank rates (%)



Source - RBC Economics, RBC Global Asset Management, Bloomberg

10-year rates (%)



Note: Eurozone utilizes German Bunds.
Source - RBC Economics, RBC Global Asset Management, Bloomberg

Research resources

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