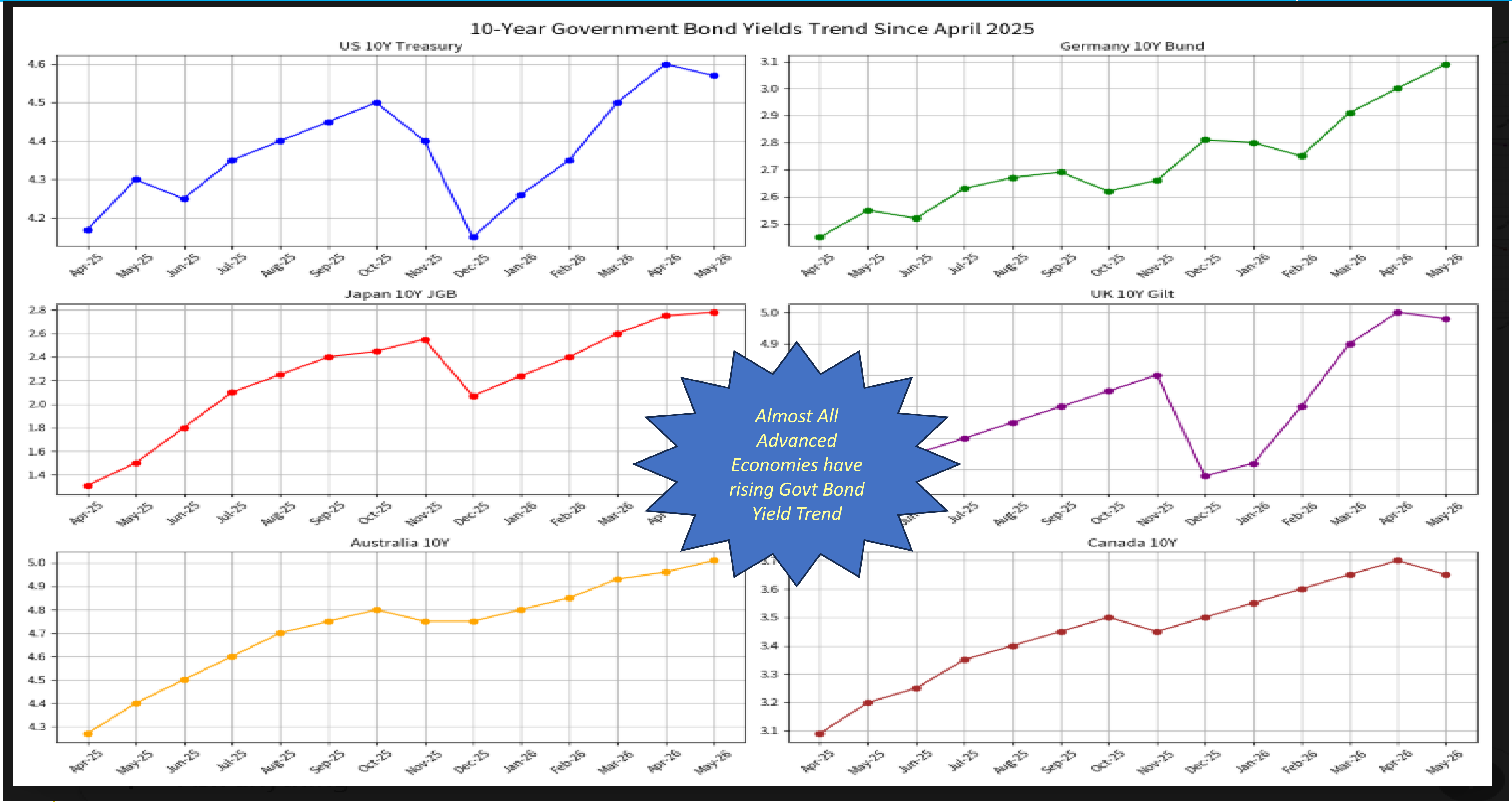
Rising Bond Yield Trend of Major Economies

(Pre War & Post War Scenario)

CANARA BANK | ECONOMIC RESEARCH VERTICAL | HEAD OFFICE

A Quick Comparative View of Govt Bond Yield of Major Economies



Rising yield of Major Economies : What it Means to Emerging Economies ?

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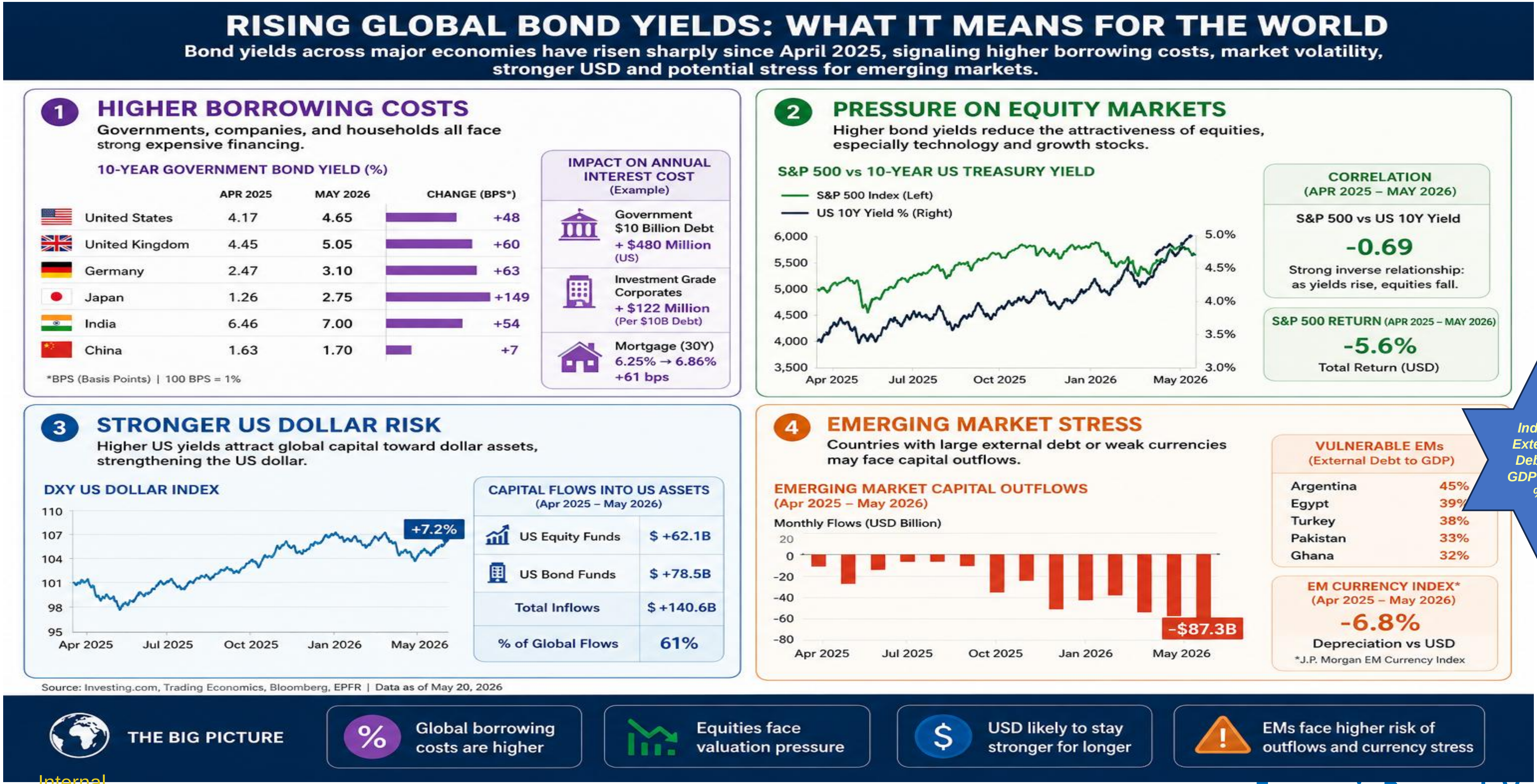


India's External Debt to GDP is 19 %

Country Specific Govt Bond Yield Analysis

US 10 Years Bond Yield Trends (May 2025 to 20th May 2026) , Japan Is the Biggest Story in Bond Markets !

The US 30-year Treasury yield has crossed 5%, the highest since 2007, while the 10-year yield is hovering near 4.6–4.7%.
Markets are worried that:

- ✓ Inflation may stay elevated,
- ✓ Oil prices may remain high,
- ✓ US fiscal borrowing is expanding rapidly.

US Treasury yields act as the "global risk-free rate." When they rise:

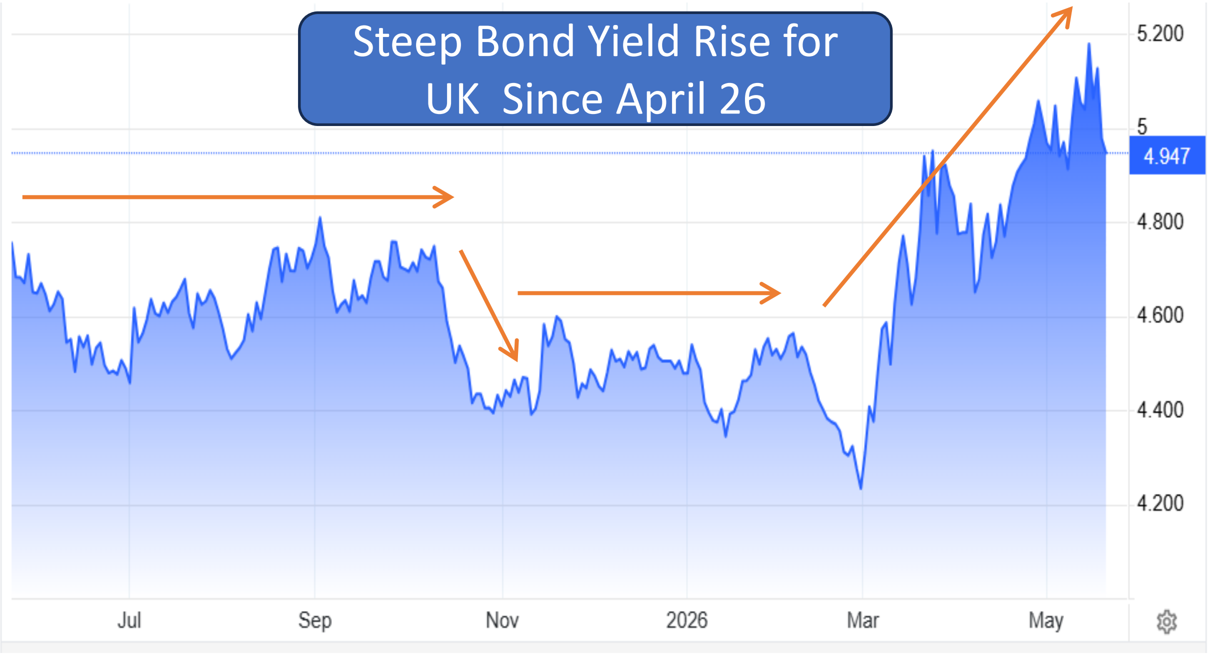
- ✓ ***global borrowing costs increase,***
- ✓ ***capital flows out of emerging markets,***
- ✓ ***equities face pressure.***

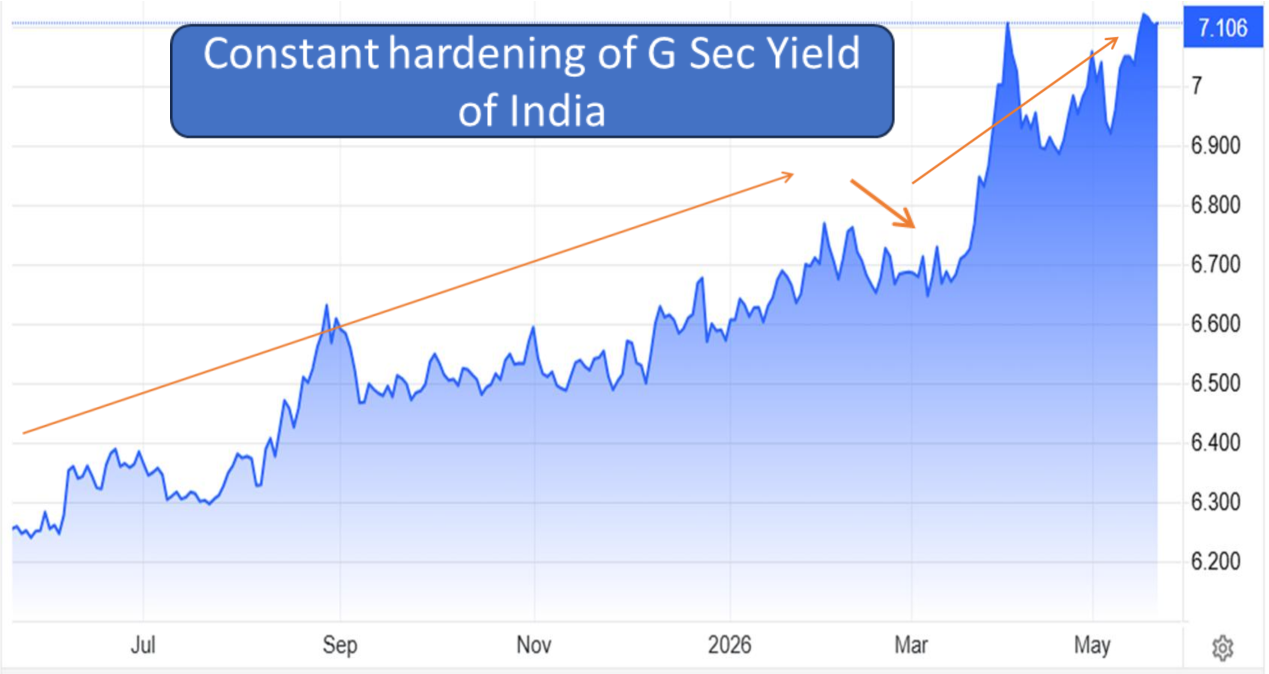
- ❑ Japan's bond yields are experiencing a historic surge after decades of ultra-low rates.
- ❑ The 10-year Japanese bond yield has climbed toward 2.8%, the highest in decades, while 30-year yields crossed 4%.

Main reasons:

- ❑ Bank of Japan is slowly exiting ultra-loose policy,
- ❑ inflation has returned,
- ❑ investors worry about Japan's huge public debt.

UK Bond Yield : Fiscal Stress is Visible … Highest in Developed Market & India : Gradual Upward Movement





UK gilt yields are among the highest in developed markets:

- ❑ inflation remains sticky,
- ❑ fiscal sustainability concerns persist,
- ❑ energy shocks worsened bond selloff.
- ❑ 10Y gilt yields touched 5% for the first time since 2008

India's G-Sec yields remain comparatively stable despite global volatility.

Key drivers:

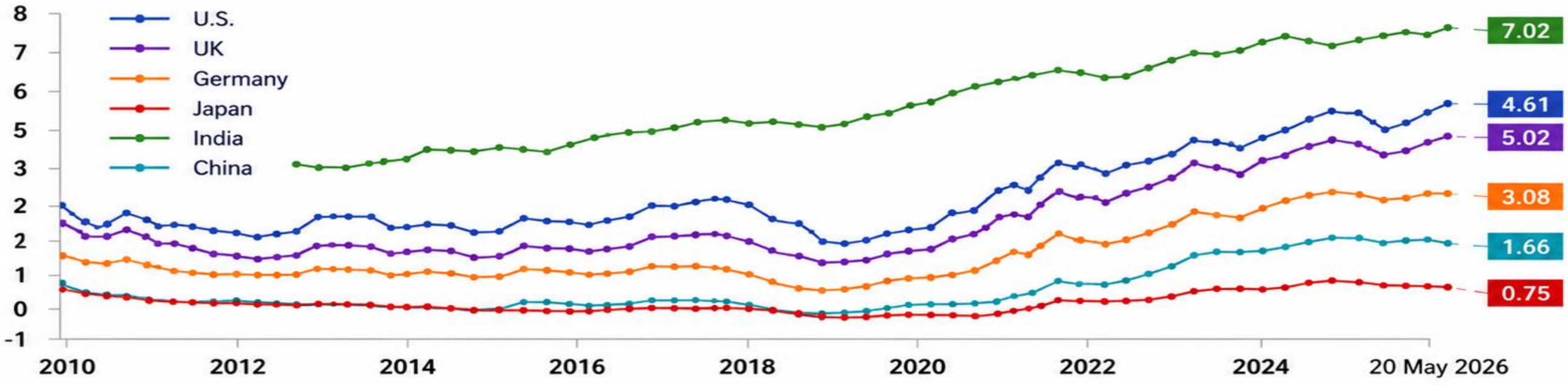
- ✓ crude oil prices,
- ✓ government borrowing,
- ✓ imported inflation risks.
- ✓ RBI liquidity management has prevented a sharp spike.

So What is the Message ?

Global Bond Market is Signaling a New Macro Regime !

1 END OF ULTRA-LOW INTEREST RATE ERA

10-YEAR GOVERNMENT BOND YIELDS (%)



LATEST 10Y YIELDS (AS OF 20 MAY 2026)	
India	7.02%
UK	5.02%
U.S.	4.61%
Germany	3.08%
China	1.66%
Japan	0.75%

Note: 10-year benchmark government bond yields.

COMBINED AVERAGE 10-YEAR GOVERNMENT BOND YIELD (%)*

Average 2015–2019 (Pre-COVID Ultra-Low Era)	April 2025 (Actual)	20 May 2026 (Latest)	Change (Apr 2025 – 20 May 2026)
2.33%	4.12%	4.52%	+0.40 pp

Yields across major economies are at multi-year highs, far above the ultra-low levels of the 2010s.

The combined average is the simple average of 10-year government bond yields of six major economies:

U.S., UK, Germany, Japan, India, and China.

* Simple average of 10-year government bond yields of six major economies.

Source: Investing.com, Trading Economics | Data as of 20 May 2026

AVERAGE CALCULATION DETAILS

Average 2015–2019:
(U.S. 2.15 + UK 1.31 + Germany 0.08 + Japan 0.00 + India 7.17 + China 3.27) / 6 = **2.33%**

April 2025: (4.17 + 4.54 + 2.44 + 1.24 + 6.70 + 1.60) / 6 = **4.12%**

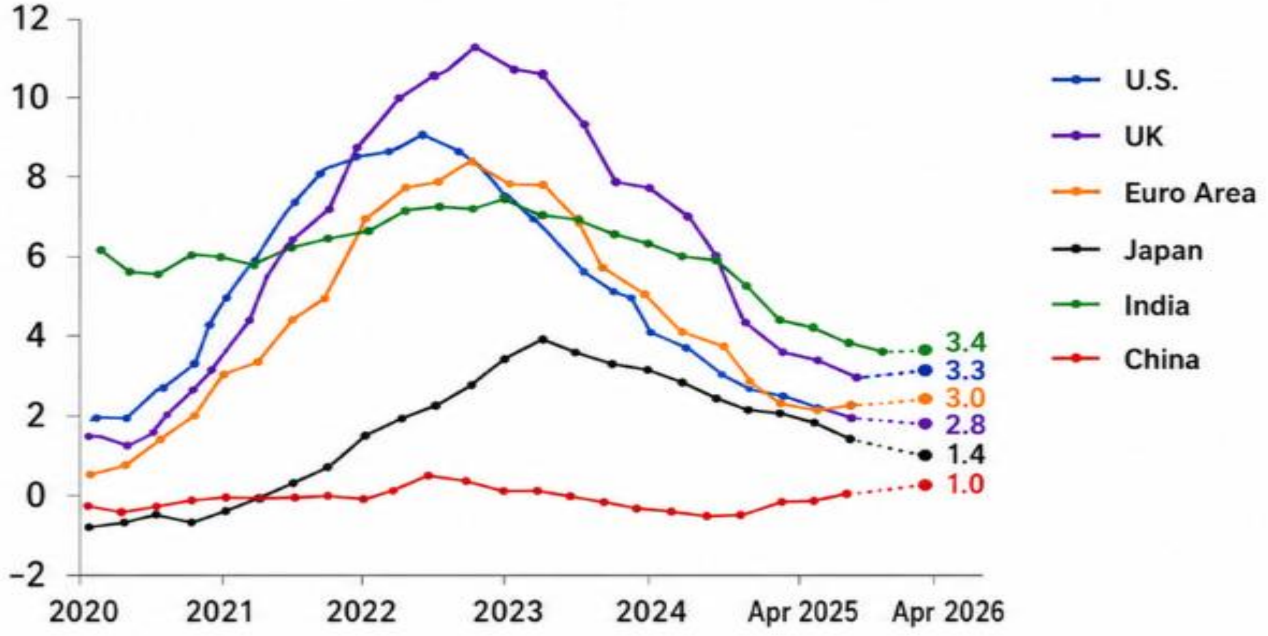
20 May 2026:

20 May 2026: (4.61 + 5.02 + 3.08 + 0.75 + 7.02 + 1.66) / 6 = **4.52%**

Note:
Yield levels fluctuate daily based on market conditions.

2 HIGHER INFLATION PERSISTENCE

CPI INFLATION (% YEAR-OVER-YEAR)



Inflation remains above central bank targets in most major economies.

Source: IMF, Trading Economics | Data as of May 20, 2026

CPI INFLATION (% YoY)

	2015–2019 Average	Apr 2025 (Actual)	Apr 2026 (Latest Available)
U.S.	1.6	2.3	3.3
UK	1.8	3.5	2.8
Euro Area	1.2	2.2	3.0
Japan*	0.6	3.5	1.4
India	4.6	3.16	3.4
China	2.1	-0.1	1.0

Inflation has re-accelerated in the U.S. and Euro Area in 2026, while the UK and Japan saw moderation. India's inflation remains stable, and China continues to see low inflation.

*Japan figures are Core CPI (Ex-Fresh Food).

Note: Apr 2026 data is latest available / flash estimate for most economies.

Lager Fiscal Deficit & Higher Debt

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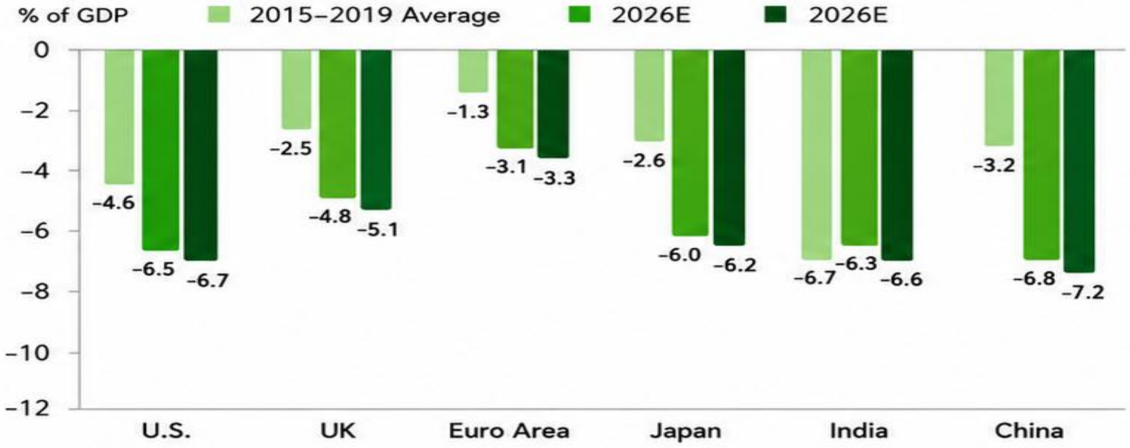
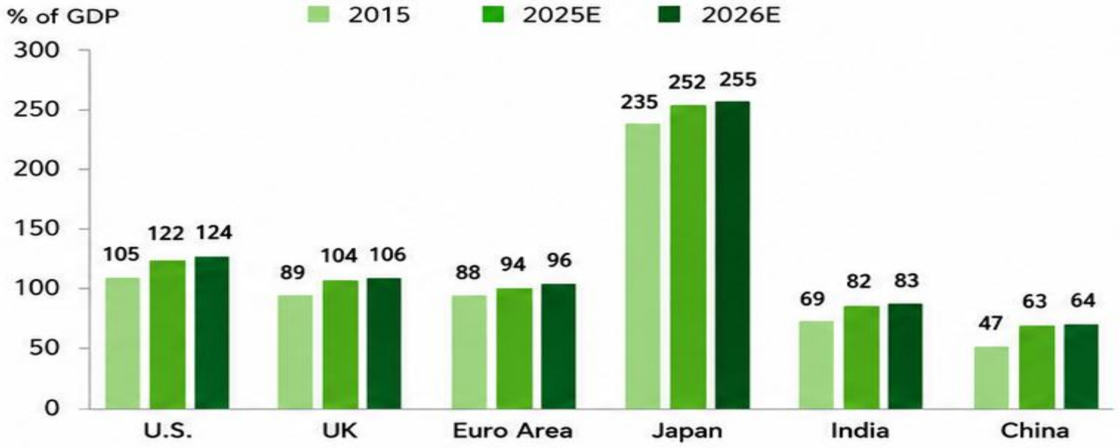
3 LARGER FISCAL DEFICITS AND HIGHER DEBT

FISCAL DEFICIT (% OF GDP)



General government fiscal balance (overall balance) as % of GDP. Negative values indicate deficits.

GOVERNMENT DEBT (% OF GDP)



General government gross debt as % of GDP. (Official IMF definition)

Deficits and debt levels are rising across developed and emerging economies, driven by higher spending needs, aging populations, and slower growth.

DEFINITION NOTES

- **Fiscal Deficit:** *General government overall balance* (as % of GDP).
- **Government Debt:** *General government gross debt* (as % of GDP).

COMBINED AVERAGE OF SIX MAJOR ECONOMIES*

Average 2015–2019 (Pre-COVID Ultra-Low Era)	April 2025 (Actual)	20 May 2026 (Latest)	Change (Apr 2025 – 20 May 2026)
−3.35%	−4.50%	−4.80%	+0.30 pp

* Simple average of fiscal deficit (% of GDP) of: U.S., UK, Euro Area, Japan, India, and China.

AVERAGE CALCULATION DETAILS

Average 2015–2019:
(−4.6 −2.5 − 1.3 − 2.6 − 6.7 − 3.2) / 6 = −3.35%
April 2025:
(−6.5 − 4.8 − 3.1 − 6.0 − 6.3 − 6.8) / 6 = −4.50%
20 May 2026:
(−6.7 − 5.1 − 3.3 − 6.2 − 6.6 − 7.2) / 6 = −4.80%

Source: IMF Fiscal Monitor (April 2026)
Note: 2025E and 2026E are IMF staff estimates.

U.S. UK Euro Area Japan India China

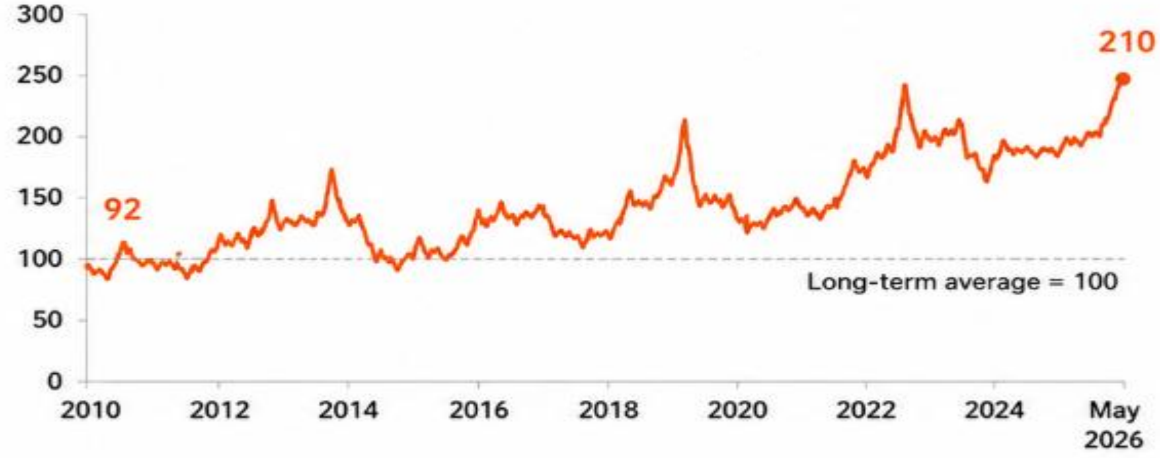
Latest data as of 20 May 2026

Effect on Risk Premium

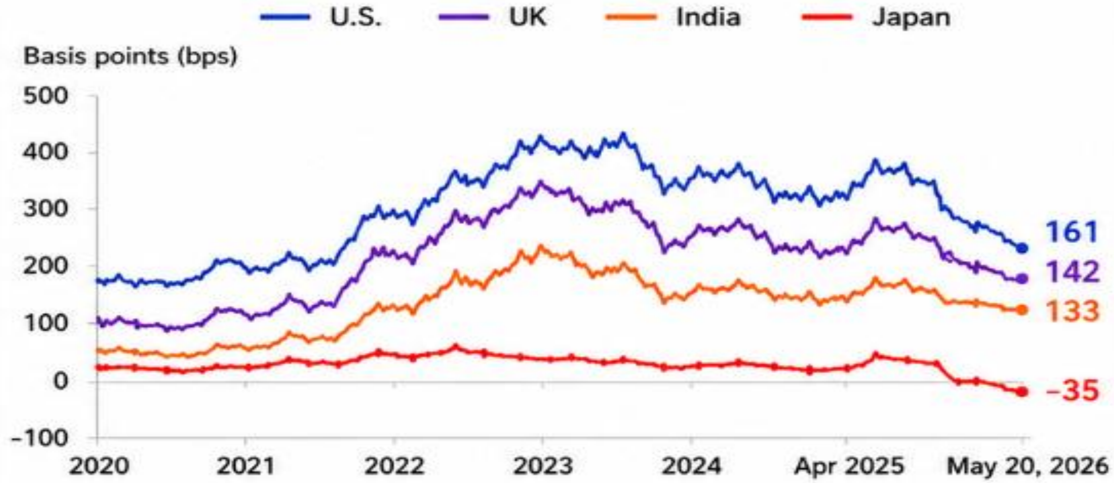
4 INCREASING GEOPOLITICAL RISK PREMIUM

GEOPOLITICAL RISK INDEX*

(Index, 100 = Long-term Average)



10Y BOND YIELD RISK PREMIUM OVER GERMANY (BPS)



Geopolitical Risk Index is at 210 vs long-term average of 100, and still rising.

Sovereign CDS spreads have widened across the board, indicating higher default risk perceived by investors.

* The Geopolitical Risk Index is calculated by Caldara & Iacoviello (2022) and covers 12 newspapers from the U.S., S., Europe, and Asia.

LATEST VALUES (AS OF MAY 20, 2026)

	U.S.	UK	India	Japan
10Y Bond Yield (%)	4.46	4.58	6.84	1.55
Germany 10Y Yield (%)	2.85			
Risk Premium over Germany (bps)	161	142	133	-35

Note: Risk premium = Country 10Y Yield – Germany 10Y Yield; 1 bps = 0.01%

SOURCES

- **Geopolitical Risk Index:** Caldara, D., & Iacoviello, M. (2022). *Measuring Geopolitical Risk. American Economic Review, 112*(4), 1194–1225.
- **Bond Yields & CDS Spreads:** Bloomberg

NOTES

- Geopolitical Risk Index is shown up to May 2026 (monthly average).
- Bond yield risk premium is as of May 20, 2026.

Takeaways

- Synchronized hardening of bond yields across major economies.
- Debt metrics worsening and geo-political risk premiums widening.
- Geo political risks and higher fuel/fertilizer subsidies to up fiscal deficit by 40 bps.
- Inflation above the 2% target across major advanced economies.
- States in India could be forced to lower VAT on fuel, causing combined deficit to breach 8%
- Risk of cutting on capex is high to minimize fiscal impact.
- Further fuel price hikes likely; CPI to be closer to 6% and repo rate hikes on the cards