Bond Vigilantes Primer

Edward Yardeni

August 22, 2026

"Bond investors are the economy's bond vigilantes. ... So if the fiscal and monetary authorities won't regulate the economy, the bond investors will. The economy will be run by vigilantes in the credit markets."
— Ed Yardeni, July 27, 1983

"I used to think that if there was reincarnation, I wanted to come back as the President or the Pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."
— James Carville, February 25, 1993

"I was watching the bond market. The bond market is very tricky; I was watching it. But if you look at it now, it's beautiful. The bond market right now is beautiful. ... I saw last night where people were getting a little queasy."
— President Donald Trump, April 9, 2025

"If your fiscal house is not in order, the bond vigilantes can come out and extract their price."
— Ken Griffin, August 21, 2026

"We have many types of intervention [to lower bond yields]. .... The ultimate intervention is our military, and if we have to use that, we will."
— President Donald Trump, August 21, 2026

Excerpt from

Predicting the Markets: A Professional Autobiography

Edward Yardeni
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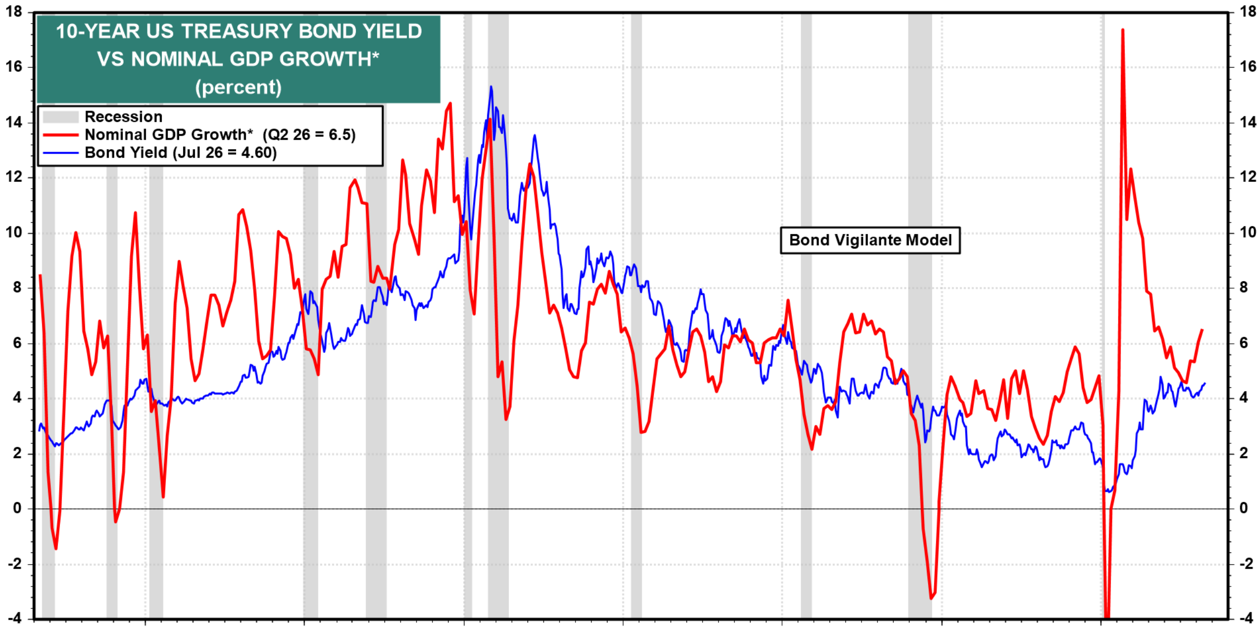
The Bond Vigilantes Model simply compares the bond yield to the growth rate in nominal GDP on a year-over-year basis (Fig.). Instead of spending lots of hours analyzing the ins and outs of the flow of funds, I do my best to forecast nominal GDP with the tools I discuss in Chapter 4 on predicting inflation and Chapter 5 on predicting the business cycle.

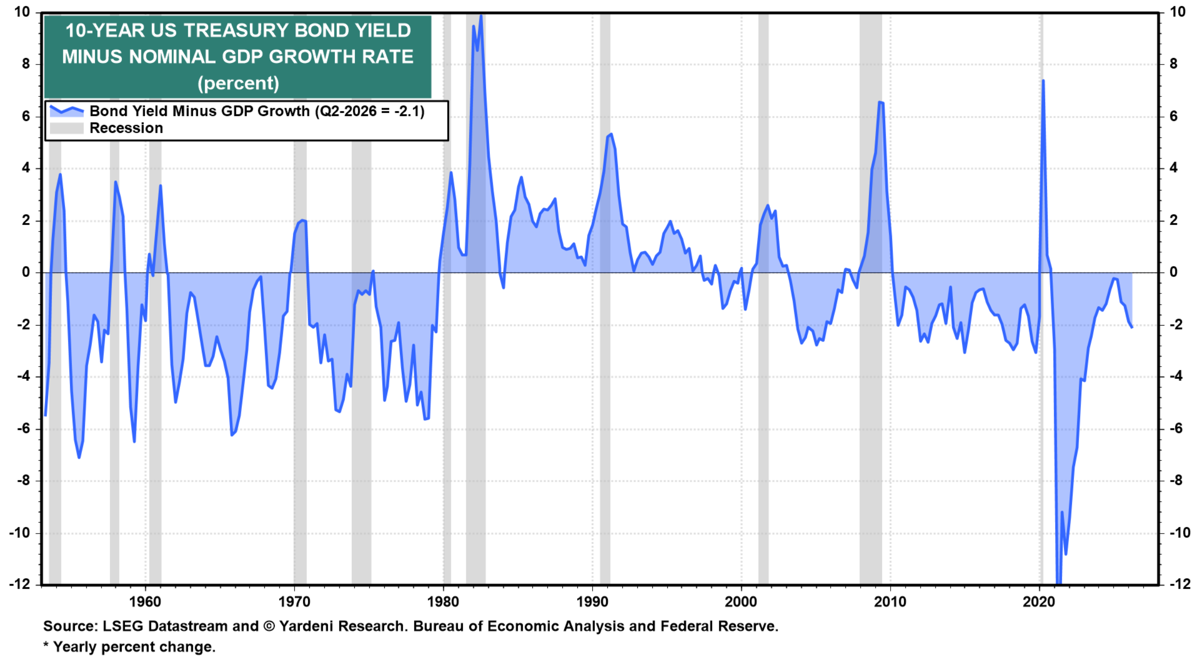


Source: LSEG Datastream and © Yardeni Research. Bureau of Economic Analysis and Federal Reserve.
* Yearly percent change.

This is a more straightforward approach but still requires plenty of work. My model shows that since 1953, the yield has fluctuated around nominal GDP growth. However, both the bond yield and nominal GDP growth tend to be volatile. While they usually are in the same ballpark, they rarely coincide. When their trajectories diverge, the model forces me to explain why. On occasions, doing so has sharpened my ability to see and understand important inflection points in the relationship.

Let's spend some time reviewing this relationship since the 1950s, and my ride with the Bond Vigilantes along the way:

• ***1950s–1970s**.* From the 1950s to the 1970s, the spread between bond yields and nominal GDP growth was mostly negative (Fig.). Investors underestimated nominal GDP growth because they underestimated inflation. Bond yields rose during this period but remained consistently below nominal GDP growth.



• ***1980s**.* That changed during the 1980s, when investors belatedly turned much warier of inflation just as it was heading downward. As a result, yields tended to trade above nominal GDP growth during that decade. Furthermore, two discernible episodes at the beginning of the decade saw rising bond yields slow the economy, allowing yields to fall again. A third episode preceded the 1987 stock market crash.

I explained this phenomenon in the July 27, 1983 issue of my weekly commentary, which was titled "Bond Investors Are the Economy's Bond Vigilantes." I concluded: "So if the fiscal and monetary authorities won't regulate the economy, the bond investors will. The economy will be run by vigilantes in the credit markets."

As the yield cycled in this vigilant fashion, the trend in nominal GDP growth moved downward along with inflation. Of course, bond investors don't have regulating the economy in mind but are simply acting in their perceived financial best interest, i.e., out of rising and falling concern that inflation might erode the effective purchasing power of their bond investment returns.

In addition to the Bond Vigilantes, other players and forces brought inflation and bond yields down during the 1980s. At the start of the decade, there was a severe recession triggered by the spike in oil prices in 1979 and by former Fed Chair Paul Volcker's aggressive monetary policy measures to contain that inflationary shock. Oil prices peaked in the summer and fell 71% through July 1986, which helped moderate inflationary pressures. Economic growth slowed in the mid-1980s because of the recession in the oil industry. During the second half of the 1980s, the mounting savings and loan (S&L) crisis depressed the housing market and raised fears of a financial contagion.

The end of the Cold War in 1989 was widely expected to boost inflation because millions of people liberated from the Soviet system would demand more goods and services. Now they would want the same standard of living as Westerners enjoyed, the thinking went. Bond yields were expected to rise, as their credit needs would swell. None of that happened. Instead, over the next couple of decades, the end of the Cold War contributed to disinflation through more free trade and global competition, as Chapter 3 discusses.

That latter disinflationary scenario was the one I thought would prevail, so I stayed bullish on bonds. In fact, in my June 20, 1988 *Topical Study*, "The Coming Shortage of Bonds," not long after the stock market crashed during October 1987, I predicted that the bond yield would fall to 5.00% by 1993 and that the Dow Jones Industrial Average (DJIA) would soar to 5000 by then. I revised that on January 6, 1994, when my new mantra became "5, 5 by '95." I predicted that the DJIA would rise to 5000 by 1995 and that the US Treasury 10-year bond yield would fall to 5.00% by then. At the time, the DJIA was 3803 and the yield was 5.84%.

As it happened, the yield fell to 5.00% on September 9, 1998 for the first time since June 13, 1967. That was well below most hat sizes. The DJIA hit a record high of 5000 for the first time on November 21, 1995.

• ***1990s.*** The Bond Vigilantes' heyday was the Clinton years, from 1993 through 2001. Placating them was front and center on the administration's policy agenda. Indeed, Clinton political adviser James Carville famously said at the time, "I used to think that if there was reincarnation, I wanted to come back as the President or the Pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."

From October 15, 1993 to November 7, 1994, the 10-year yield climbed from 5.19% to 8.05%, fueled by concerns about federal government spending. With some guidance from Robert Rubin, who served in the White House as the

President’s assistant for economic policy from January 1993 to January 1995, the Clinton administration and Congress tried to reduce the federal budget deficit. The yield dropped to 4.16% on October 5, 1998.

After the mid-1990s, the Bond Vigilantes seemed less active because they no longer had to be as vigilant. As inflation fell, the spread between the bond yield and nominal GDP growth narrowed and fluctuated around zero.

• ***2000s.*** While the US government faces persistently large federal budget deficits today, it’s worth recalling that at the start of 2001, a major topic of discussion was how big the coming federal budget surplus might get. It is truly remarkable to reread [former] Fed Chairman Alan Greenspan’s congressional testimony of January 25 that year. He noted that the Office of Management and Budget projected that if current policies remained in place, the total unified surplus would reach $800 billion in fiscal year 2011, including a $500 billion on-budget surplus. In his testimony, Greenspan added that the Congressional Budget Office was likely to report even larger surpluses. He concluded: “The most recent projections, granted their tentativeness, nonetheless make clear that the highly desirable goal of paying off the federal debt is in reach before the end of the decade.” He spent most of the rest of his testimony discussing whether the government might have to buy private assets with the surpluses.

During the 2000s, the Fed kept the federal funds rate too low for too long, largely because of fears of deflation. According to both Alan Greenspan and former Fed Chair Ben Bernanke, a global savings glut also played a role. As a result, bond yields mostly stayed below nominal GDP growth. Mortgage rates and mortgage lending standards were too low. This created a huge housing bubble, which led to the Great Recession.

• ***2010s.*** From 2009 through late 2015, the Fed responded to the anemic recovery following the Great Recession by pegging the federal funds rate near zero. The Fed also purchased bonds under various quantitative easing (QE) programs from November 25, 2008 through October 29, 2014, as Chapter 9 discusses. These ultra-easy monetary policies effectively buried the Bond Vigilantes, because the Fed was now the 800-pound gorilla calling the shots in the credit markets. Betting against the Fed was likely to be a very bad bet since the “buyer of last resort” had opted to be the buyer of first resort in the bond market, scooping up large quantities of bonds on a predictable, regular basis. Bond yields remained consistently below nominal GDP growth during this period.

The Federal Reserve Bank of San Francisco tested my Bond Vigilantes concept empirically, as detailed in its August 2015 working paper "Bond Vigilantes and Inflation." The authors developed "a simple model where bond issuance may lead to political pressure on the government to choose a lower inflation rate." Sure enough, they found that "inflation-targeting countries with bond markets experience inflation approximately three to four percentage points lower than those without." The authors of this study explained: "Our model suggests that when a domestic bond market is created, the rich find themselves holding assets exposed to inflation and respond by lobbying to lower inflation. Our model is stylized and not meant to be taken literally. Still, it formalizes our contention that domestic financial market developments can influence macroeconomic outcomes. By issuing debt that is not protected from inflation, the government creates a powerful political group opposed to inflation and ends up choosing less inflation than it would otherwise."

Bond Investors Are the Economy's Vigilantes

***Money & Business Alert*, Prudential-Bache Securities**

Edward Yardeni

July 27, 1983

For the past six months, we've been forecasting a less-than-robust recovery with lower interest rates. If the recovery came on too strong, we suggested that it wouldn't be sustainable. Interest rates would back up and the recovery slowed or ceased. We have been rooting for a peaceful transition from recession to expansion. Now we are concerned that the more violent scenario is possible.

Bond investors won't finance a triple-digit federal deficit and a robust recovery. They had hoped that the fiscal and monetary authorities would keep law and order in the economy. But they've been disappointed. On the fiscal side, there is not much prospect of deficit-narrowing initiatives until after the presidential elections. Mark Melcher, who watches Washington for Prudential-Bache Securities, believes that "Debategate" could snarl economic policy. A White House staff that is disorganized and to some degree demoralized is certain to rely more heavily on political savvy and less and less on hard work and consensus gathering. This means an early start on Campaign 1984 and poorer prospects for reducing the $200-billion-plus budget deficits through meaningful compromise with Congress, either this year or next.

The monetary authorities also seem paralyzed. The Fed can't tighten too hard for fear of destabilizing the international debt crisis. If the Fed tries to ease in order to relieve the crisis, reflationary expectations will push rates up anyway. A year ago, the Brazilian debt problem was bullish for bonds because the Fed could and did respond by pushing interest rates lower. Today, the Brazilian issue seems to be bearish for bond prices. Bond investors are wondering whether the Fed would have raised the discount rate by now in response to the rapid growth in M1 and real GNP if there was no international debt problem. Many believe that the Fed would have been more restrictive but for this constraint. So investors fear that the monetary authorities are biased towards reflation as they desperately try to avoid deflation.

So if the fiscal and monetary authorities won't regulate the economy, the bond investor will. The economy will be run by vigilantes in the credit markets. Let's hope they aren't out for blood. *If the recent rate backup slows the recovery and money growth as we expect, then all is well.* If not, watch out for some violent activity in the financial markets and the economy.

Bond Vigilantes Hit Another Home Run

QuickTakes, Yardeni Research, Inc.
Edward Yardeni
August 9, 2025

The Bond Vigilantes have struck again. As far as we can tell, at least with respect to US financial markets, they are the only 1.000 hitters in history. Even though the Stock Vigilantes clearly told President Donald Trump late last week that his tariff policy was misguided, his advisers touted falling oil prices and bond yields as ultimately helping Main Street America. That changed as the 10-year Treasury yield surged 34 bps from below 4.00% on Friday to nearly 4.34% today (chart).

After ratcheting back all reciprocal tariffs to 10% for at least 90 days (and upping the pressure on China to a greater than 100% tariff), Trump said today: "I was watching the bond market. The bond market is very tricky; I was watching it. But if you look at it now, it's beautiful. The bond market right now is beautiful. ... I saw last night where people were getting a little queasy." Trump also said he listened to JPMorgan CEO Jamie Dimon's interview this morning with Fox's Maria Bartiromo, where Dimon said a recession was likely and the bond market was sending bad signals about stress in the financial plumbing.

The Bond Vigilantes Are Stirring

***Morning Briefing*, Yardeni Research, Inc.**
Edward Yardeni
August 18, 2026

We've often said we will worry about the US government debt problem when the Bond Vigilantes do. In recent months, they seem to be stirring around the world, suggesting they worry about the government debt problem not only in the US. They've been especially active in the United Kingdom and Japan.

Beyond government debt, the Bond Vigilantes are concerned about rising hyperscaler borrowing. Furthermore, while the latest inflation numbers in the US have moderated, the Bond Vigilantes worry the Fed may not be vigilant enough on this front, especially if oil prices move higher again. Free passage through the Strait of Hormuz remains challenging, even if it is renamed the "Strait of Trump." The recent joint intervention by Japan and the US to support the yen suggests that US Treasury officials want to do what they can to stop the Japanese government from selling its huge hoard of US Treasuries to support the yen.

We aren't pushing the panic button. However, we are closely monitoring whether the Bond Vigilantes might do so. We recall that during the summer of 2023, the US bond yield soared from 4.00% to 5.00% in three months from August through September. At 5.00% on November 1, the bonds turned out to be a great buy. A similar buying opportunity could emerge in the bond market. For now, we are sticking with our view that US bond yields should continue to trade in a normal range of 4.00%-5.00%, without causing adverse consequences for the economy and corporate earnings. Nevertheless, now that the yield is approaching the top of this range, we are monitoring the Bond Vigilantes more closely.

Last week, Secretary Scott Bessent's Treasury Department paid a yield of 4.68% to sell $42 billion of 10-year notes—the highest yield since the eve of the Global Financial Crisis. The most recent 30-year auction drew a yield of 5.22%, the highest since 2001. Global investors may be demanding more to finance Washington's $40 trillion debt.