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The bond market is crashing Trump’s midterm campaign

By **Eva Roytburg** 
Fellow, News



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Treasury Secretary Scott Bessent and President Donald Trump.
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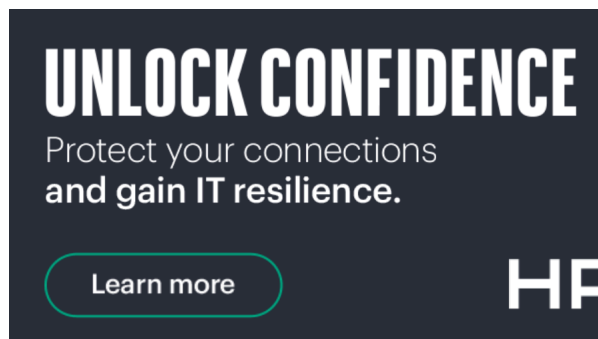
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Abdul El-Sayed, an epidemiologist-turned-politician, has no particular background in the Treasury markets. Yet, Wednesday morning, the Democratic nominee for U.S. Senate in Michigan offered his armchair analysis of the bond rout on [X](#), writing that it was a “ringing alarm bell,” that investors’ confidence had been undermined by inflation, the war with Iran, and pressure on the Fed. President Donald Trump, El-Sayed argued, was risking the economy in order to give it a “temporary sugar high through the midterms.”

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The post is just one in a fleet of partisan spin that El-Sayed and every other Senate candidate might make. And the forces driving the bond market are considerably more calculated than his post suggested.

But the political danger he identified is real: With the midterms a mere two months away, rising Treasury yields are threatening to make an Affordability 2.0 crisis flare up.



Long-term bonds have been selling off across the most advanced economies usually taken years. More of a “slow burn” than a sudden shock, an economics fellow at Brookings, wrote in a [Substack](#) published during the pandemic, followed by an and unmoored fiscal spending, rates are in a melt-up in essential economy save for Switzerland and Sweden, which have kept their notes.

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What's new is that the selloff has spread to the 10-year Treasury—the benchmark for mortgages, loans for cars, and corporate spending—which started [to also push up](#). The 10-year yield climbed above 4.8% this week, its highest level since October 2023, and the five-year sits right below 4.6%, up from below 4% in March.

“Sustained higher interest rates can translate into the balance sheets of households fairly quickly,” Stephen Kaplan, a professor of political science and international affairs at George Washington University who has studied how bond markets constrain governments around elections, told *Fortune*. “And that can have repercussions during elections.”

Kaplan argued that voters are less likely to point fingers at Treasury Secretary Scott Bessent than they are to blame Trump. He compared it to how voters talk about inflation; they don't necessarily care whether inflation is above the Fed's 2% target, or PCE versus CPI, but they do certainly notice when beef and eggs start to cost more. By the same token, they notice when interest rates push up, making a house purchase untenable; or when companies stop hiring to save money from higher rates.

The Trump administration has paid close attention to long-term rates. The *New York Post's* Charles Gasparino reported last month that Treasury Secretary Bessent [was prepared to “put the fear of God”](#) into bond vigilantes. Bessent has already announced Treasury buybacks and renewed reliance on short-term borrowing, in an effort to prevent long-term yields from climbing further. On Wednesday, at the G20 summit, he argued that the economy remains “very, very strong” and that interest rates should fall once the U.S. gets “on the other side” of the Iran conflict.

Bessent also repeated a line that Warsh has used: that artificial intelligence will become “extremely disinflationary” once the productivity benefits hit, even within six months, he argued.

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But six months would be too late to bring down the numbers before the midterms. And voters are already judging the economy on its pressure points: In a Reuters poll [conducted](#) last week, nearly half of registered voters named the cost of living as the most important factor in their vote. And 71% of Americans disapproved of Trump's handling of the cost of living, compared with just 22% who approved.

It's the economy, stupid

Broader political science literature suggests that those perceptions matter during midterms. Political scientist Edward Tufte [famously described](#) the midterm vote as a referendum on both the president's performance and his administration's management of the economy. Looking at elections from 1938 through 1970, his seminal 1978 study found that changes in presidential approval and voters' real purchasing power were strongly associated with the national vote received by the president's party. It truly is the economy, stupid.

But that is also what makes the bond market such a weird adversary heading into a midterm election. Investors are not only adjudicating on inflation or the Fed. They are confronting an enormous supply of government debt, wondering if Washington has the political plan to stabilize it.

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"I don't think anyone doubts the economic capacity of the United States," Kaplan said. "It's more this question of political will." All the austerity options—cutting spending, reforming entitlements, or raising taxes are measures politicians are reluctant to embrace before an election. America's reserve-currency status gives Washington more time than most countries to resolve that conflict, Kaplan said, but not indefinitely.

For now, Kaplan said, this is far from a U.S. debt crisis, or a Liz Truss affair. Kaplan described the current move more as a market nod to policymakers than an immediate act of discipline.

"Markets are giving a check," Kaplan said. "The market's kind of saying, 'Okay, we're concerned about inflation. We're concerned about the economy. People are concerned about affordability.' It's a check: Okay, what's being done about it?"

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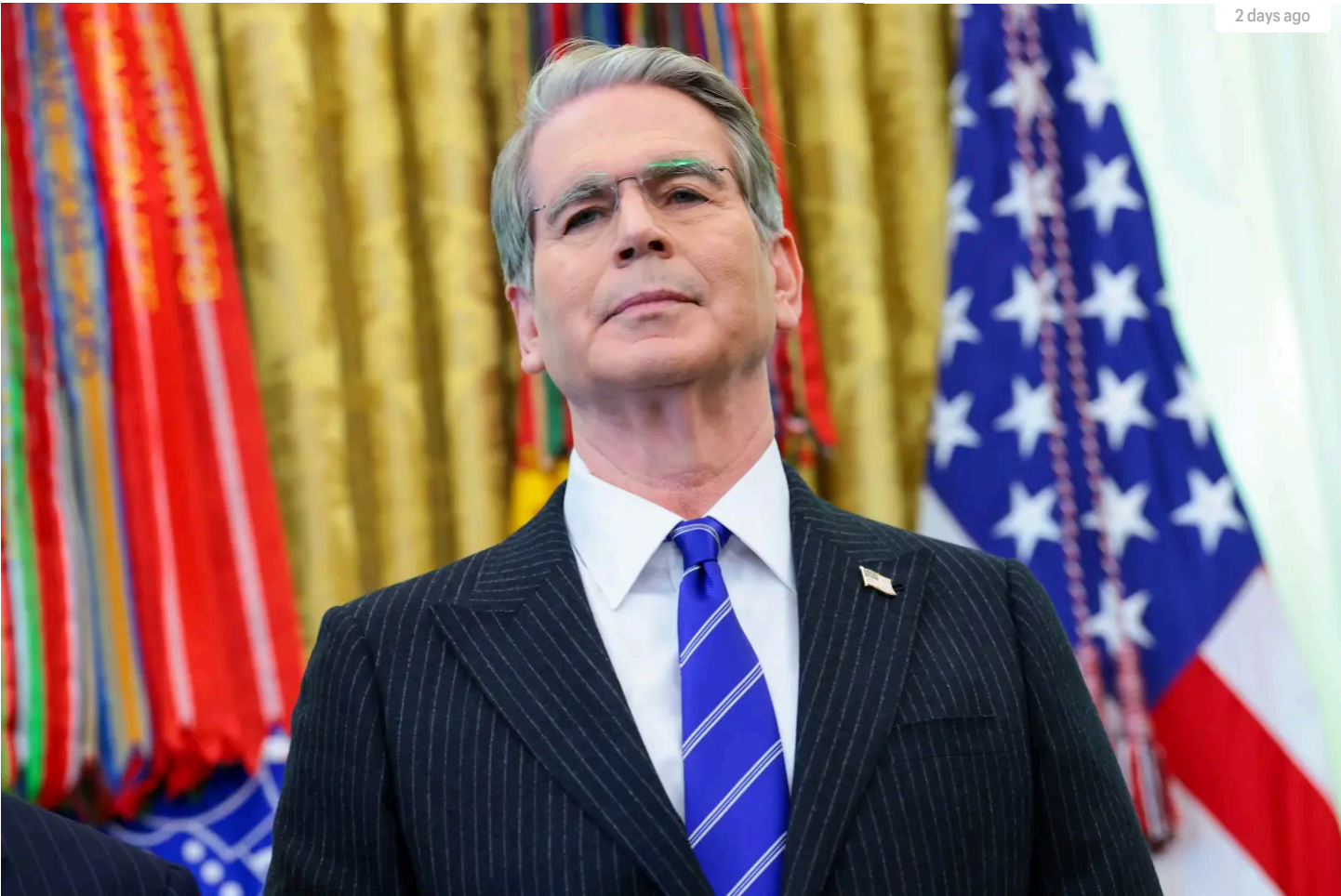
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