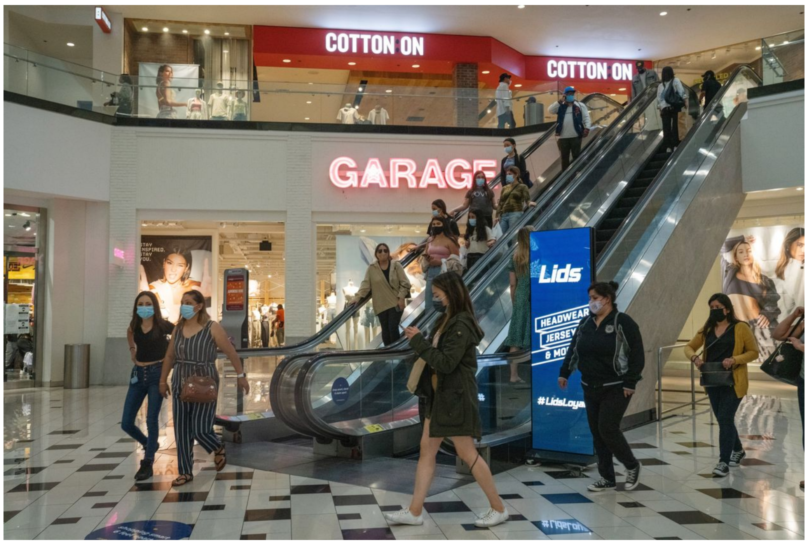
https://www.wsj.com/articles/treasury-yields-climb-following-consumer-price-data-11620835216

CREDIT MARKETS

Treasury Yields Climb Following Consumer-Price Data

Rising consumer prices worry bondholders because inflation erodes the value of bonds' fixed payments



The Labor Department's consumer-price index jumped 4.2% in April.

PHOTO: BING GUAN/BLOOMBERG NEWS

By Sebastian Pellejero

Updated May 12, 2021 4:01 pm ET

Listen to this article
3 minutes

U.S. government bond yields posted their biggest one-day climb in almost two months Wednesday after new data showed consumer prices surged in April, a sign that the economic recovery is still picking up steam.

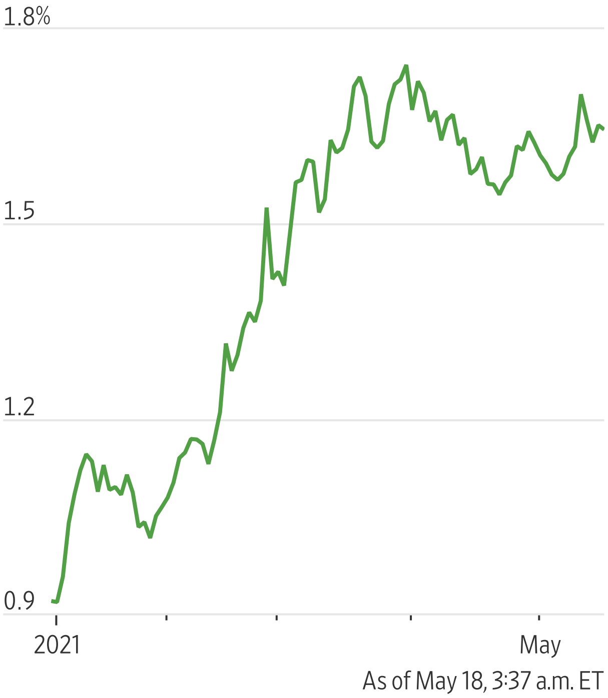
The yield on the benchmark 10-year Treasury note finished the session at 1.693%, according to Tradeweb, up from 1.623% at Tuesday's close. That marks the largest single-session gain since March 18.

Yields, which rise when bond prices fall, shot up after the Labor Department reported its consumer-price index jumped 4.2% in April from a year earlier—the highest 12-month level since the summer of 2008—due to supply bottlenecks and surging demand as the coronavirus pandemic eased.

Rising consumer prices worry bondholders because inflation erodes the value of bonds' fixed payments and can lead the Federal Reserve to raise interest rates.

Analysts and investors are parsing through April's data to gauge the extent of what many expect to be a monthslong rise in prices. Some believe that faster-than-expected growth and inflation, fueled by the distribution of stimulus money and vaccines, may force the Fed to tighten its easy-money policies, which have included holding interest rates near zero and buying billions of dollars worth of bonds.

U.S. 10-Year Treasury Note



Source: Tullett Prebon

“The market is trying to reorganize its thoughts about what today’s [inflation] data means for the months ahead,” said Jim Vogel, interest rates strategist at FHN Financial.

The Fed expects inflation to climb this year. But central-bank officials have said they anticipate that rise to be transitory and to fall short of its new goal of averaging 2% over time. That means letting prices rise faster than 2% for some time to make up for periods of lower inflation.

In a speech Wednesday after the inflation data was released, Richard Clarida, the Fed’s vice chairman, reiterated this belief, saying that “one-time increases in prices are likely to have only transitory effects on underlying inflation” and that he expects inflation to return to, or perhaps run somewhat above, the Fed’s longer-run goal in 2022 and 2023.

Some investors say continued consumer-price rises could pressure the U.S. central bank.

"Should we witness a series of upside surprises to inflation, like today's, then markets might begin to challenge the Fed's narrative," said Rick Rieder, chief investment officer of global fixed income at asset manager BlackRock, in a statement Wednesday.

The run-up in yields came before an auction of $41 billion of 10-year notes later in the afternoon. Analysts say the sale attracted strong demand from investors.

Bracing for Inflation

Analysis from The Wall Street Journal, selected by the editors

STREETWISE
Everything Screams Inflation

NEWS ANALYSIS
Higher Prices Leave Consumers Feeling the Pinch

CAPITAL ACCOUNT
As World Runs Short of Workers, a Boost for Wages--and Inflation

STREETWISE
If Inflation Is Coming, Here's What to Do About It

GREG IP
Is Inflation a Risk? Not Now, But Some See Danger Ahead

ESSAY
Behind Big Spending Plans, the Waning Sway of Economic Caution

NEWS ANALYSIS
Buying a Used Car? Expect High Prices

HEARD ON THE STREET
No One Is Singing About Inflation Now. That's Good News

Write to Sebastian Pellejero at sebastian.pellejero@wsj.com

Appeared in the May 13, 2021, print edition as 'Yields Jump on Inflation Signal.'

May
18
2021

Ask WSJ: A Deep Dive Into Biden's Free College Plan

May
19
2021

10:00 AM - 10:30 AM EDT

Ask WSJ: Why India's Surge in Covid-19 Cases Is a Threat to the World

ADD TO CALENDAR