EFFICIENT GROUP

ECONOMIC COMMENTARY

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THE BOND MARKET IS PUTTING A PRICE ON POLITICAL PROMISES

For years, one of the most consequential prices in the global economy was almost invisible: The price of money. Near-zero rates let governments borrow cheaply, companies fund marginal projects, and investors justify almost any valuation. Political promises appeared affordable because financing costs had faded into the background. The bill has now arrived.

United States (US) ten-year government-bond yields recently approached 5%, while 30-year yields climbed towards 5.4%. British yields reached 5.3%, and even Germany and Japan, once symbols of ultra-cheap money, have seen borrowing costs surge. This is more than a bad season for bond investors. Government yields underpin mortgages, company loans, property values, and share prices. Raise that foundation and the entire financial structure must adjust.

Inflation is only partly responsible. Oil above $100 a barrel has revived energy pressure, while services inflation remains stubborn. Central banks, scarred by their slow response to the previous shock, are raising rates before expectations become unanchored. Yet, something more interesting is happening: Governments are not only paying for past excess; they are competing against the future.

Artificial intelligence (AI) data centres, electricity generation, grids, chips, and cooling systems are absorbing extraordinary amounts of capital. Investment-grade companies are expected to issue $1.9 trillion in debt this year. The AI boom may create jobs and increase productivity, but first it must be financed. Every dollar channelled into a data centre is a dollar that cannot simultaneously finance a government deficit. This changes the conversation. Rising yields do not signal only fear. They may also reflect optimism about productive private investment. Capital has alternatives again, and governments must explain why investors should lend to them. A project that expands electricity supply or removes a logistics bottleneck could generate future growth. An unfunded electoral giveaway merely sends the bill to taxpayers who never voted for it.

India offers a revealing, if imperfect, comparison. Its economy and private investment are booming, yet its bond sell-off has been milder than that of the US. Capital controls and captive domestic investors help, but so do a credible inflation target and a primary deficit below 2% of gross domestic product. Markets tolerate borrowing more readily when policymakers demonstrate restraint and central banks can do their jobs.

Germany shows the political tension. Its economy is finally stirring, helped by exports, start-ups, and AI-related demand. Still, much of the recovery rests on debt-funded public spending while ageing, expensive energy and weak competitiveness remain unresolved. Necessary reforms become harder as frustrated voters turn towards populist alternatives. Even the enthusiasm for “free” public transport belongs in this story. Removing fares sounds compassionate, but evidence suggests that universal subsidies shift few motorists from their cars and can crowd out faster, safer, and more reliable services. Price can be abolished for the passenger; cost cannot. It simply reappears as taxes, displaced services, or debt.

South Africa should read this warning carefully. We cannot determine the global price of capital, but we can influence the premium that investors demand from us. When US government debt offers nearly 5%, South African borrowers must work harder to attract funds. Weak policy, failing infrastructure, and unfunded promises become considerably more expensive. This does not mean that government should spend less. It must spend better. Reliable electricity, functioning ports, water security, and capable municipalities can expand future productive capacity. Waste, poorly targeted subsidies, and consumption disguised as investment do the reverse.

Investors face the same discipline. Debt-heavy companies and richly-valued shares become more fragile, while dependable cash flows and strong balance sheets regain their appeal. Bonds can cause losses for existing holders while offering better income to new buyers. Cheap money allowed markets and politicians to postpone difficult choices. Expensive money brings them forward. The bond market is asking every government the same uncomfortable question: If you borrow from the future, what exactly will the future receive in return?

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