

In the post coronavirus world the bond markets are no l...

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The FT [has an article](#) this morning with the headlines:

How central banks beat back the 'bond vigilantes'

Unlimited bond buying has made it near impossible for investors to punish overspending

The article includes some of the usual nonsense that bond dealers are apt to offer journalists, including the claim that 'one day all this spending will have to be paid for'. But, in essence the article now recognises a truth which is worth reiterating.

That truth is that after a decade of QE, and now with the onset of direct monetary financing of government spending by central banks (whatever past sentiment and regulation suggests legal, desirable or otherwise), bond markets now have very little remaining influence over governments.

The great threats that were always made in the past to governments that wanted to increase their spending were threefold.

First, it was said that bond markets would refuse to fund the spending, so it could not happen.

Second, it was alternatively suggested that bond markets would push up interest rates and so punish the government for its actions and the electorate for being mad enough to put them in office.

Third, it was claimed money would leave the country, and the exchange rate would be threatened as a result.

These arguments no longer stack up, at all. If bond markets don't want to fund a deficit now a government in many countries can simply turn its back on the market and fund itself. It's not governments that are being shunned now: it's the bond markets that are. The situation has completely reversed.

The same is true on interest rates. QE has proved that these are now almost entirely under government control. Threats to rates from the bond market no longer really exist in any meaningful sense.

So will money flee? It can still. It's true that money is moving towards the dollar, for example. But the reasons have nothing to do with deficits. They have instead to do with economic fundamentals. Exchange risk has not gone away. Governments who, for example, wish to put themselves outside world trading blocs when the full extent of our interdependency is becoming ever more apparent, do see moves against their currency. But that's not because of the scale of spending; that's because of relative trading weaknesses in the real economy.

So, the bond markets are now neutered.

The age old threat to government's spending, always wheeled out by the supposedly great who were rarely up to much good, has been laid to rest. Thank goodness.