Funding the Future

How threatening are the bond vigilantes?

Published: August 29, 2026, 7:07 am

This comment was posted on the blog this morning by an occasional commenter called Dennis Buckley:

If we ever did get a government committed to managing public finances properly, how would they prevent the traders, the City, the hedge fund oligarchs from attempting to torpedo its efforts to 'right' our systems. Would they not make a concerted effort to see interest rates skyrocket as the Tory 'news'papers howled about financial mis-management?

This style of comment is happening quite often now and presumes that markets have power. I am not convinced. The comment I would have posted if I had not decided to write this post instead was as follows. Having decided to write here, I did not restrict my word count.

This argument about bond markets supposedly forcing interest rates upward has a very basic problem implicit within it.

To push the market interest rate on government bonds upwards, investors have to push the price of those bonds down. And there is only one way they can do that: they have to sell government bonds. Full stop.

But to have a significant effect, they have to sell enough of them. And, crucially, having sold them, they cannot then buy them back without reversing the very pressure they are supposedly trying to create.

So, if the City really wanted to conduct a sustained attack on a government by driving gilt yields upwards, it would have to keep selling gilts without buying new ones.

That immediately creates two problems.

First, somebody else has to buy every gilt that is sold. There is always another side to the transaction. The bonds do not disappear simply because a supposed bond vigilante sells them.

Second, if this is supposed to be a continuing attack, the sellers have to keep accepting progressively lower prices for their bonds. In other words, they have to deliberately realise losses. And then they have to assume another group of investors buys those bonds with the intention of selling them later at still lower prices if the attack is to continue.

That, then, requires a continual round of deliberate and coordinated loss-making.

In that case, an obvious question is why the City would want to keep losing money simply to attack the government. Financial institutions exist to make money, not to sacrifice their own balance sheets indefinitely in pursuit of an ideological campaign.

That does not mean gilt prices cannot fall. Investors can change their portfolios, expectations can change, and markets can become volatile. But that is very different from the mythology of all-powerful “bond vigilantes” who can indefinitely dictate terms to a currency-issuing government.

They cannot. Their supposed weapon requires them to keep selling assets at ever-lower prices while somebody else keeps buying them. That is not unlimited market power. It is a strategy of deliberate loss-making. And not many City players will do that for long.

In that case, how real is this threat? Not very, I would suggest. The government can weather any such storm, not least by refusing to issue any more bonds whilst activity of this sort is going on. By abandoning the supposed full-funding rule, which requires it to keep going to the markets for money it does not need, this cycle could always be broken.