Bonds Got Scorched This Summer. 3 Things That Could Make Fall More Miserable.

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Data released earlier this week indicated a U.S. budget deficit of $1.8 trillion over the 10 months ended in July, a level that topped last year's overall total with two more months left on the 2026 fiscal calendar.

The deficit tally last month, at $432 billion, was the highest since March 2021, and bested only by two other pandemic-era readings in June and April 2020.

Overall U.S. debt levels are likely to reach the $40 trillion mark, the highest on record, within the next two months. A staggering $50 trillion tally is firmly in the frame by the end of the decade, as well, according to the Congressional Budget Office.

That's a worrying backdrop to what James Smith, developed markets economist at ING, describes as the new reality for bond investors: "a global economy that's trapped in a cycle of recurring supply shocks that keep inflation permanently above target."

Those shocks, including the massive surge in semiconductor costs, the power demand linked to rollout of AI-powered data centers, and the spikes in global crude prices tied to the U.S. war with Iran, are all evident in the current market mindset.

"That thinking is hugely problematic for investors," he added. "If supply shocks really are becoming more frequent—and we get more periods where inflation rises at the expense of economic growth—then we'll see more periods where bond and stock prices fall together."