US yields at 2007 levels crimp stocks

U.S. Treasury yields hit a peak not seen since the early tremors of the 2007-2008 global financial crisis on Tuesday, as fears of interest rates staying high for longer roiled risk assets globally and drove the dollar to a 10-month high.

Asian and European stock benchmarks sagged, with U.S. equities set to follow suit, and crude oil prices dipped on recent remarks from Federal Reserve officials that drove a bearish steepening of the U.S. yield curve.

The benchmark STOXX index of 600 European shares slid 0.5%, in line with an earlier fall in MSCI's broadest index of Asia-Pacific shares.

The yield on 10-year Treasury notes rose as high as 4.566%, a 16-year peak, while a hefty pipeline of U.S. treasury auctions this week and fears of a U.S. government shutdown all further stoked the skittish mood.

Bond yields, which move inversely to prices and rise when risks related to the issuer are perceived as growing, remained elevated among euro zone sovereigns as the narrative that central banks will keep rates higher for longer held sway.

Germany's 10-year government bond yield, the euro area's benchmark, was last little changed on the day at 2.789%, having briefly hit a 12-year high of 2.813% in early trade.

The gap between the yields on Italian benchmark 10-year BTP bonds and safer German Bunds has risen to around 1.86 percentage points (186 basis points), the widest since late May, as Prime Minister Giorgia Meloni prepares a difficult 2024 budget.

FEARS OF A SHUTDOWN

Minneapolis Fed President Neel Kashkari said more rate hikes were likely needed given the surprising resilience of the U.S. economy.

The nervousness around U.S. government debt is exacerbated by efforts from the Republican-controlled House of Representatives to advance steep spending cuts this week, which stand no chance of becoming law but could trigger a partial shutdown of the government by next Sunday.