It wasn’t very long ago that the dread hovering over global financial markets was that things were getting too calm. Just this summer, Federal Reserve officials were fretting over markets being so stable that it might create complacency, and we were writing about a global boom in asset prices.

Even if many Americans don’t fully realize it yet—though an unnerving drop in a wide range of global markets Wednesday may have gotten our collective attention—the autumn has brought a rather darker set of worries with a series of dives in financial markets across the globe.

On Wednesday alone, the Standard & Poor’s 500 briefly fell into negative territory for the year and the interest rate investors were willing to accept on 10 year U.S. Treasury bonds edged below 2 percent for the first time since June 2013. (As of late morning, the S&P was down 1.4 percent for the day and narrowly up for
the year, and the 10 year Treasury bond was back up to 2.05 percent).

But those moves underlie a bigger story: Many crucial indicators in markets for international bonds, currency and commodities are pointing toward a heightened risk of a worldwide economic slowdown that may be beyond the ability of policy makers to halt. It would inevitably have ripple effects even on the relatively strong American economy.

People who monitor the diverse global markets to understand what the future may hold are closely following these indicators.

**Bond yields.** When the economic outlook becomes more gloomy, investors tend to pile money into government bonds of nations viewed as secure, creditworthy places to park money. Also, when the economic outlook appears worse, investors assume central banks will keep low interest rates in place for longer, so they must accept lower interest rates on even long-term bonds.

These two factors together mean that the change in government bond yields of advanced countries works as a convenient proxy for whether economic expectations are becoming more optimistic or more pessimistic.

The signals are unambiguous. From the United States to Western Europe to Japan, long-term interest rates are falling.

Now consider the backdrop in the United States: Through the first three-quarters of 2014, job creation has steadily improved and the Federal Reserve has followed through on its plans to end the buying of long-term bonds this year (and has strongly signaled it will hike interest rates next year). You knew all that back in December, so you would have expected that interest rates would be steady or even up significantly this year. And you would have been very wrong: Ten-year Treasury bonds yielded 3 percent to start the year, a figure now down to 2.2 percent.

So something else is going on unrelated to the Fed or to the growth picture in the United States. And it seems to involve the outlook for inflation.

**Inflation.** We can gauge how much investors in the bond market expect prices to rise in the years ahead based on the difference in prices between regular bonds and those indexed to inflation. And that measure over the last few months has been pointing to a sharp drop in inflation expectations.

But why would that be? After all, standard economic theory would suggest that if the economy is strengthening, it should push up inflation. Workers have a better shot at getting a raise now that the unemployment rate is under 6 percent than
they did when it was double digits, for example.

That’s true, of course, but the United States is no island. And right now, there are some powerful forces pulling prices down from around the world.

**Commodity prices.** Take a look at some data from the world of commodities — the raw materials that feed and fuel the world. Almost all of them have declined mightily in price over the last several months. Crude oil is down about $20 a barrel, or 22 percent, since June 30. Corn futures are down a whopping 31 percent since their recent high at the end of April.

This development is terrible news for farmers and energy producers, but has benefits for ordinary people, who can gas up their car more cheaply and potentially feed themselves more cheaply. (The latter impact is most significant in poorer countries where food is a huge portion of people’s expenses.)

But what’s the bigger story here? Why are food and fuel prices falling so sharply, and how much of the slump in global interest rates and inflation expectations does it explain? After all, if this was just a peculiar but temporary phenomenon, the moves in all these prices shouldn’t give us much reason for concern about the future of the global economy.

Each commodity has its own unique supply and demand, and analysts in each sector can point to lots of factors contributing to the slumping prices. The energy boom in the United States, including new production in North Dakota and Texas, is a big part of it. Discussions within OPEC over whether to cut production to try to prop up prices haven’t succeeded. Similarly, it has been a banner year for corn and soybean production within the United States, and for wheat production in Europe.

But if this was just a story of commodity prices falling, it’s not clear why global investors would view that as anything more than a one-time shift. And the movement in bond prices isn’t just on bonds that mature over the next two or three or five years, but in those that last for 10 or 20 or 30 years.

**Currency.** Consider the value of the dollar. While it both impacts and is impacted by commodity prices, it is primarily shaped by the shifts in interest rates, economic growth and inflation levels in various countries. And it has been rising sharply against most other nations’ currencies since the summer, the same span over which prices and inflation expectations have been falling worldwide. As we reported last week, the dollar’s rise has been steepest against currencies in places where the domestic economic outlook is the worst, particularly Europe but also
Brazil, Japan and possibly China.

Put all this together, and what is going on here? Here’s what would seem to fit the evidence best:

The world economy still hasn’t recovered from the last recession. Moreover, investors lack confidence that policy makers have the tools they would need to avert a new slide into recession after years of throwing everything they have at it to try to encourage recovery and prevent deflation, or falling prices. Coincidentally, commodity prices are declining largely because of supply, but the timing of that decline is bad: It makes the risk of deflation that much more severe.

Add it all up, and the markets aren’t betting on catastrophe per se; if they were, stock prices would be down more. But they are betting that central banks and other policy makers aren’t going to be able to get a handle on global deflationary forces that have been unleashed. That means we could be in for a slow grind in which global growth and inflation both stay below where people across the advanced world would like it to be.

It’s a lot better than being in the throes of a financial crisis the way the world was in the fall of 2008. But it’s not a terribly sunny place to be six years later.

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