The US Treasury Market in a Changing Economic Environment

An Investor's Rutter Perspective on Fiscal Policy, Institutions and Economic Outcomes

Richard Marney and Philipp Waeber – August 2026

Recent developments in the US Treasury market raise questions that extend beyond bond yields. US national debt has reached $40 trillion. Fiscal deficits remain large. Inflationary pressures have increased while growth appears to be slowing. At the same time, the Treasury market must absorb substantial new issuance in an economic and geopolitical environment rather different from that of much of the past two decades. This does not point necessarily to a fiscal or institutional crisis. But it raises a reasonable question for investors: are we seeing a cyclical repricing of US government debt, or the early signs of a more structural change in the environment in which the United States finances itself?

The **Investor's Rutter** provides one way of approaching the question. It distinguishes between a country's **Endowments**—the relatively enduring assets and constraints with which it starts; its **Enablers**—the institutions, policies and capabilities that determine how effectively those assets are used; **Context**—the domestic and external forces acting upon the country; and **Outcomes**—the economic and financial results that emerge from their interaction. The purpose is not to predict Treasury yields. It is to identify what is changing, judge what may be persistent and determine what evidence should cause an investor to revise an existing view.

Strong Endowments

Any assessment should start with the considerable structural strengths of the United States. It has a continental economy, abundant natural resources, deep capital markets, leading universities and research institutions, technological leadership and an unusual capacity to attract capital and talent. Its private sector remains highly innovative. The dollar is the world's principal reserve currency and the Treasury market remains the world's largest and most important government securities market. These advantages give the United States greater capacity to absorb economic and policy mistakes than most countries. There is little reason to believe that these Endowments have materially weakened. Indeed, AI and other technological developments could strengthen some of them further.

But strong Endowments do not guarantee strong Outcomes. The connection runs through the Enablers.

The Enablers

The relevant questions concern fiscal governance, policy consistency, institutional effectiveness and the capacity of government to make difficult choices. Can expenditure and revenues eventually be reconciled? Can inflation be controlled without imposing excessive costs elsewhere? Can government execute increasingly ambitious policies effectively? And can political institutions adjust when existing policies become unsustainable?

The United States retains substantial institutional capacity and a long history of adaptation. But that capacity is being tested. Persistent deficits during periods of relatively high employment suggest that an important part of the fiscal imbalance is structural. A growing interest burden makes eventual adjustment more difficult. Political divisions complicate agreement over expenditure and taxation. Meanwhile, greater demands are being placed upon government in defence, infrastructure, industrial policy, technology and social expenditure. This does not establish institutional deterioration. It does make institutional effectiveness increasingly important. The issue is whether the policy system can reconcile competing objectives as the constraints tighten.

A More Demanding Context

The Context has also changed. For much of the period following the global financial crisis, inflation was low, interest rates were exceptionally favourable and global demand for US financial assets remained strong. Globalisation restrained many goods prices. Foreign central banks accumulated Treasuries. The Federal Reserve itself became a major purchaser of government debt.

Some of these conditions are now less accommodating. Geopolitical competition has intensified. Defence requirements have increased. Trade policy has become more interventionist. Supply chains are increasingly organised around security and resilience as well as efficiency. Inflation may therefore prove more difficult to contain than during much of the post-2008 period. Individually, none of these developments presents an obvious problem for the United States. Collectively, they create a more demanding environment for policy.

The changing composition of Treasury demand is particularly important. Marketable Treasury debt rose from roughly $4 trillion in 2006 to $30 trillion in 2026, with private investors absorbing around $19 trillion of that increase. By 2026, private investors held 73 per cent of the market, compared with roughly half in 2016. Treasury demand is not disappearing. But increasingly it has a price.

What Are Outcomes Telling Us?

Debt has reached $40 trillion and fiscal deficits have remained around 6 per cent of GDP in recent years. Long-term borrowing costs have risen. Investors appear to require greater compensation for holding duration. There are several possible explanations: inflation expectations, geopolitical uncertainty, prospective issuance, monetary policy and the changing composition of Treasury demand. The important point is not to attribute the movement to any one factor, but to ask what the combination is telling us. Long-term yields should therefore be treated neither as proof of fiscal deterioration nor simply as market noise. They are an Outcome: a signal that should lead the investor to ask what changes in Context or Enablers may be producing it.

The Treasury's recent intervention provides an interesting example. It announced that purchases of longer-dated government securities would at least double from $2 billion to $4 billion. Such buybacks have traditionally been associated principally with debt management and market functioning rather than controlling long-term borrowing costs. The direct effect on yields has so far been modest. But other market indicators suggest that the announcement has affected investor behaviour. Treasuries have outperformed equivalent-maturity swaps, while positioning increasingly reflects the possibility that Treasury may intervene again if long-term yields rise sufficiently. The distinction is important. Treasury may be able to influence market prices and expectations. That does not mean that it has changed the fiscal, inflation or supply pressures underlying those prices.

Looking More Closely at the Treasury Market

The present Treasury-market debate has several distinct elements, and separating them is important.

The first is supply. The government must finance a large existing debt stock while continuing to run substantial deficits. This means persistent issuance across the curve. The issue is not whether the Treasury can fund itself. It can. The question is the yield required to persuade investors to absorb a growing supply of duration. That becomes more important when deficits remain large even outside recession and when competing demands for global capital are also increasing. Large private-sector financing requirements may add to that competition. The rapid expansion of AI-related investment, for example, is increasingly being financed through corporate bond issuance, giving investors additional alternatives to long-duration Treasuries.

The second is who buys the debt. This may be the more important structural development. The Treasury market has expanded enormously while holdings of two traditionally important groups of buyers have not kept pace. Federal Reserve Treasury holdings have fallen from around $6 trillion following the pandemic to about $4 trillion, while foreign official holdings have remained broadly around $4 trillion for much of the past decade. Private investors have filled much of the gap. The Treasury is therefore relying increasingly on investors whose principal reason for holding the asset is its risk-adjusted return rather than reserve management or monetary policy.

The third is the term premium. A long-term Treasury yield can be thought of, in simplified terms, as the expected path of short-term interest rates plus compensation for holding a long-duration asset. That additional compensation had been unusually low, and sometimes negative, for much of the post-global-financial-crisis period. It is now positive again. The changing composition of Treasury ownership provides one possible explanation: price-sensitive private investors may require more compensation for assuming duration, inflation and policy risk. Barclays notes that the New York Fed's estimated term premium averaged around 1.3 percentage points in the decade before the global financial crisis, almost twice its current level. It therefore sees scope for a further move towards the earlier regime.

The fourth is inflation. Investors buying a 10- or 30-year bond are making a judgement not simply about today's inflation rate but about the credibility of the inflation anchor over many years. That judgement becomes harder when fiscal deficits are large, geopolitical shocks are pushing prices higher and monetary policy itself is under greater scrutiny. This does not mean that inflation expectations have become unanchored. But uncertainty about future inflation increases the compensation investors are likely to require for holding long-duration nominal debt.

Finally, there is policy signalling. Treasury's decision to increase long-bond buybacks is small relative to the size of the market. But size may not be the most important consideration. The announcement appears to have changed investor expectations about Treasury's willingness to intervene if long-term yields rise further. Some market participants have begun to describe this as a “Bessent put.” If investors interpret the intervention principally as liquidity and debt management, its broader significance may remain limited. But if they increasingly interpret it as an attempt to influence the price of government borrowing, the institutional implications become more important. Treasury may succeed in lowering yields at the margin while leaving the underlying fiscal and inflation risks unchanged. In that case, intervention changes the market signal rather than necessarily changing the conditions producing it. Repeated intervention could also raise a further question: whether Treasury's approach to debt management is becoming increasingly intertwined with broader macroeconomic objectives. This does not establish institutional weakening. It does, however, suggest that established institutional boundaries and policy conventions are being tested. The significance will depend less on this particular intervention than on whether it proves exceptional or becomes part of a broader pattern.

Taken together, these factors suggest that the Treasury market may be undergoing more than a conventional adjustment to the expected path of Federal Reserve policy. Supply is large. The buyer base is changing. The term premium may be normalising. Inflation uncertainty has increased. And investors are paying closer attention to fiscal and institutional policy. None establishes that Treasuries have ceased to be the world's benchmark safe asset. The more modest conclusion is that investors may increasingly distinguish between the safety of receiving their dollars back and the price they require to lend those dollars for a long period.

That is an important distinction for the Rutter. A country can retain enormous financing capacity while the terms of that financing become less favourable.

A Different Financial Equation?

The changing investor base may make this increasingly important. If Treasury issuance continues to rise while a larger share must be absorbed by valuation-sensitive investors, those investors may require greater compensation for inflation, duration and uncertainty. Higher yields would then raise government interest expenditure and make the fiscal arithmetic more difficult. Slower growth would reinforce the effect. Stronger productivity growth would work in the opposite direction.

This is not a prediction of crisis. The United States retains considerable fiscal capacity, exceptionally deep capital markets and the important advantage of borrowing in its own currency. Nor does a more valuation-sensitive investor base necessarily mean weaker demand. It means that yields may need to adjust more readily to attract that demand. Barclays argues that the shift in Treasury ownership could contribute to a return towards the higher term-premium environment that prevailed before the global financial crisis. If so, part of the recent adjustment in yields may prove structural rather than temporary. That would not constitute a crisis. It would mean that the terms on which the United States finances itself had changed.

Reading the Signals Through the Investor's Rutter

The Investor's Rutter cautions against two easy conclusions. America's exceptional strengths do not make its fiscal trajectory irrelevant. Equally, $40 trillion of debt and higher Treasury yields do not establish that a fiscal crisis is approaching. Both conclusions place too much weight on current conditions and too little on trajectory.

The **Rutter** suggests a different approach. **Endowments** remain exceptionally strong. **Context** has become more demanding. Some **Enablers** are being tested more severely. **Outcomes** are providing signals that warrant attention. The question is whether these pressures are temporary, cyclical or more persistent.

That gives the investor a reasonably clear set of things to watch. Does fiscal policy begin to stabilise the debt trajectory, or do large deficits persist? Does productivity growth, perhaps supported by AI and other technological investment, materially improve the fiscal arithmetic? Does inflation return sustainably towards target? Do Treasury interventions remain principally instruments of debt and liquidity management, or do they increasingly become instruments for influencing borrowing costs? Can the Treasury market continue to absorb substantial issuance without a persistently higher term premium? Does the dollar retain its exceptional international role? And do American political institutions continue to demonstrate their historical capacity to adjust policy when circumstances require it?

There is an important counterweight. The United States has repeatedly demonstrated an ability to adapt. Its economic flexibility, institutional depth and private-sector dynamism have allowed it to emerge from earlier periods of fiscal, political and economic difficulty in stronger condition than many contemporary assessments anticipated. That evidence deserves as much weight as the more troubling indicators.

The Rutter does not tell us that the United States has crossed some fiscal or institutional threshold. Nor does the Treasury market. They tell us where to look. America retains exceptional Endowments and considerable capacity to adapt. But the Context is becoming more demanding, its Enablers are being tested and the Outcomes warrant attention. The question is whether these are temporary pressures or evidence of a more persistent change in trajectory.

That is ultimately the investor's task: identify what is changing, judge what it means and revise that judgement as the evidence changes.