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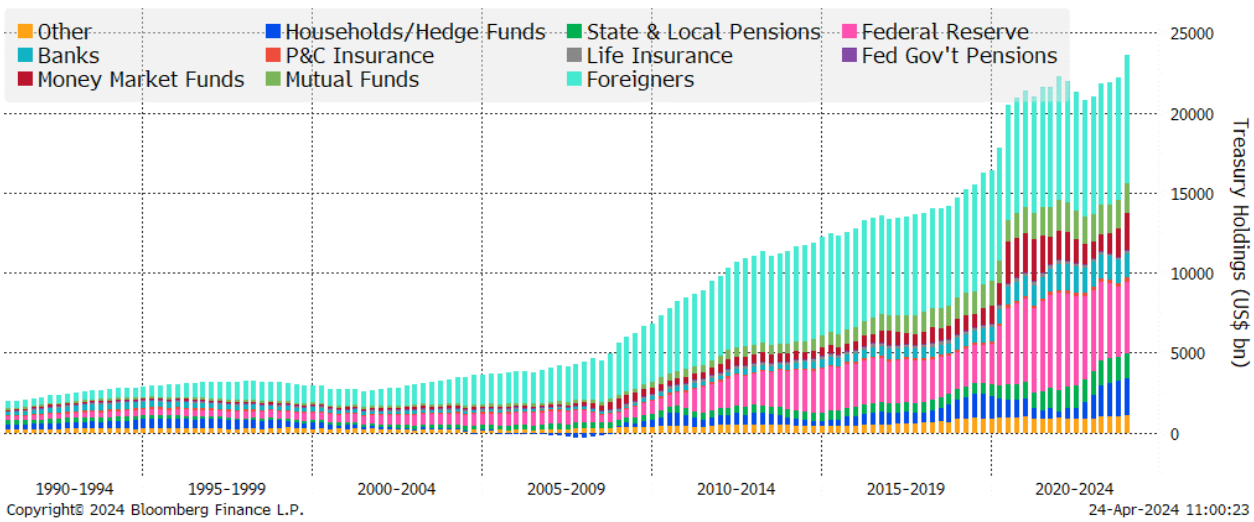
04.24.2024

Uncle Sam's Admirers



- The chart above shows the different buyers of U.S. Treasurys over time.
- The amount of outstanding debt issued by the U.S. government (Treasury) has increased over time, particularly since 2020, to finance the growing fiscal deficit.
- Over the past couple of years, the amount of U.S. Treasurys held by foreign investors has declined in percentage terms to just less than 1/3 of the market. The decline in foreign demand has partly been due to the high cost of currency hedging and also the result of higher government yields in regions where they are domiciled.
- The Federal Reserve is also reducing its U.S. Treasury holdings by allowing $60 billion of Treasurys to roll off (i.e. not reinvest proceeds from maturing bonds) its balance sheet each month as part of its quantitative tightening process.
- Higher yields and robust savings have driven demand for U.S. Treasurys from household investors. This group has seen the biggest increase in Treasury holdings, increasing its holdings by ~ $1.6 trillion.
- The deficit will continue to require a large amount of Treasury bond issuance and the ability to digest that supply will be key for the functioning of financial markets. Should we reach a point where financial markets are unable to absorb the amount of Treasury issuance – such as a Treasury auction where the Federal Reserve needs to step in as the buyer of last resort, it will be a clear sign for the government that it is finally time to address the deficit.

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