US debt at forty trillion and no quick fix for the long end

US debt passed $40tn as the Fed and foreign reserve managers reduced their holdings. Private investors now absorb more supply and seek higher yields. Treasury's buyback briefly lowered the thirty-year yield but did not reduce net supply. Lasting relief will require other measures.

AS OF
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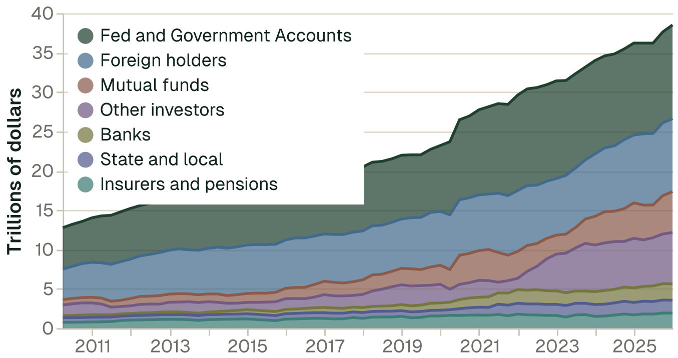
SCOPE
US federal debt outstanding, its creditor base, long-term yields and the Treasury and Federal Reserve policy response

KEY POINTS

- Federal Reserve holdings fell from $6.25tn at their 2022 peak to $4.69tn in the first quarter of 2026, while the combined share of other investors rose from 15.88% in 2010 to 30.39% at the end of 2025. Europe faces the same shift as the ECB reduces its holdings leaving private investors to absorb more supply in both markets.
- Treasury's intervention held for only one session: the thirty-year yield was back at its pre-announcement level the next morning while the dollar weakened and gold and bitcoin rose. Analysts called it a renewed "debasement trade" — a bet that suppressing borrowing costs without cutting deficits weakens the dollar instead.
- Quantitative easing would be the most direct way to lower long yields. This however would reverse Kevin Warsh's plan to shrink the Fed's balance sheet. Pressure from Treasury to restart purchases would also test the Fed's independence.

Domestic funds absorbed what governments gave up

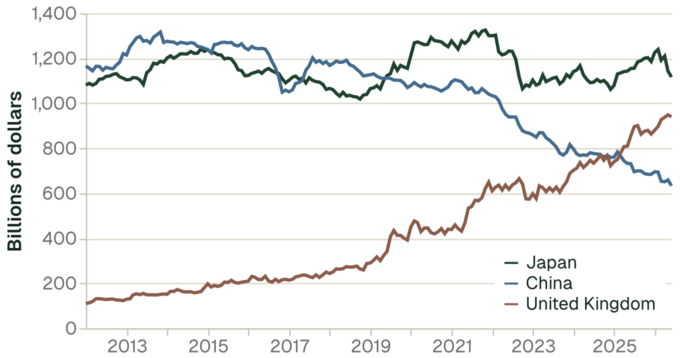
Estimated ownership of Treasury securities, quarterly



Every holder line has grown in dollars; the mix is what changed. Insurers, pensions and savings bonds are four lines drawn as one. It opens in 2010 because the table does.

China holds less than half what it held in 2013

Reported holdings of the three largest foreign creditors, monthly



Attribution is custodial, so the United Kingdom line is mostly London custody for owners elsewhere. It opens at the December 2011 break, before which the path was interpolated.

The debt and the borrowing need

The U.S. crossing $40tn has no direct market effect but investors should care about how quickly the debt is growing and how much Treasury must issue going forward. The latest $5tn increase took twenty-five months, compared with thirty months for the previous $5tn. On 10 August, the Congressional Budget Office (CBO) raised its fiscal 2026 deficit projection to $2.1tn from $1.9tn. Customs receipts are much lower than anticipated due to the IEEPA decision by the Supreme Court.

Debt is 122.59% of GDP, compared with 62.72% before the financial crisis. This places the U.S above Europe but far below Japan's 200 %. The central issue for the Treasury is financing cost, yields must rise when investors require more compensation to absorb additional supply.

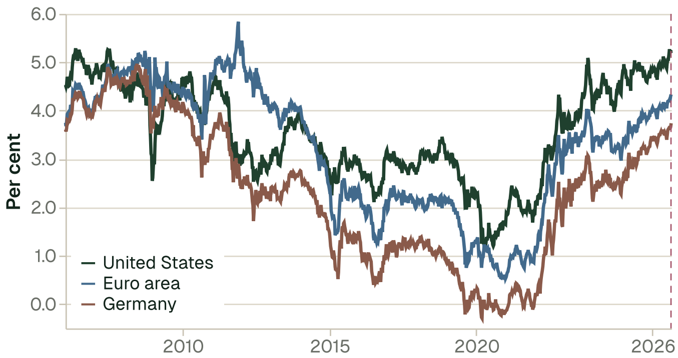
Creditor Rotation

The Federal Reserve and foreign reserves buy Treasuries partly for policy and currency reasons. Generally speaking they are less sensitive to price than private investors and are more likely to hold bonds through losses. Both now hold a smaller share of the debt. Foreign investors' share fell from 34.14% at its 2013 peak to 24.07% at the end of 2025. China's holdings fell from $1,317bn at their 2013 peak to $633bn in June 2026. China's share of all foreign holdings fell from 23.03% to 6.81%.

Funds share on the other hand rose from 15.88% in 2010 to 30.39%. These investors can demand a higher yield or buy other assets. This shift in creditors can put upward pressure on the term premium, which is the additional yield investors require to hold long-term bonds.

Long yields are back at pre-crisis levels

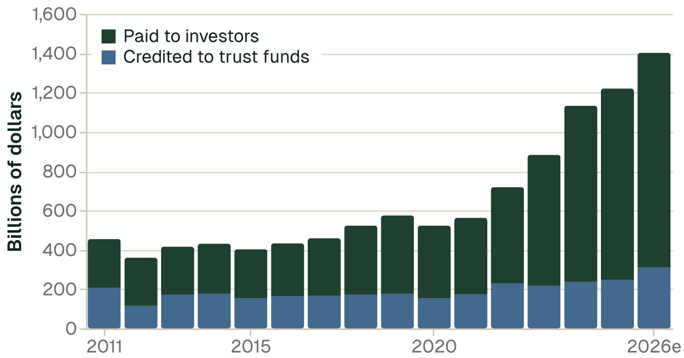
Thirty-year government bond yields, weekly, since 2006



One reading a week. The euro area curve carries every issuer, so it sits above the Bund by the periphery spread. The dashed line marks the 19 August announcement.

Interest is on course for $1,402bn in fiscal 2026

Gross interest expense by fiscal year, 2026 estimated



The 2026 bar is a projection: each series' two unreported months are scaled from the same months of 2025 at its own year-to-date growth. Ten months are reported, worth $1,170bn.

Europe's long end repriced too

Germany's thirty-year yield reached 3.76% on 19 August, its highest level since July 2011. We see a similar pattern in Europe where the euro-area all-issuer yield reached 4.34%, its highest since September 2012.

Germany's thirty-year yield has risen by 117bp since the end of 2024. About 36bp came in the two weeks before the Bundestag approved the debt-brake amendment on 18 March 2025. A further 33bp came during the rest of 2025 while the ten-year barely moved, a steepening the ECB attributes to real rates and a global component. Another 33bp came this year. The ECB raised its deposit rate on 17 June, and the two-year is now 55bp above it.

Europe broadly is seeing a similar creditor rotation. Amundi expects ECB holdings to fall by about €384bn this year, more than three quarters of net issuance again, so private investors take close to twice the new issuance. Barclays sees gross supply at a record €1.54tn next year. More paper against unchanged appetite clears at a lower price, and buyers are stepping back from the very long end into tens.

What Treasury did

On 19 August, The Treasury said it would at least double the maximum buyback in the 10–20-year and 20–30-year nominal sectors. Secretary Bessent emphasised that the Treasury could buy more than $4 billion worth of long-term bonds. Treasury said the long-end operations routinely receive enough high-quality offers to justify a larger limit. The decision nevertheless revised a schedule published two weeks earlier, making it an unusual departure from the regular quarterly process.

The stated justification for the programme is to remove less-liquid "off-the-run" securities from the market. It effectively aims to reduce supply of long-end bonds which in turn reduces yields of those Treasury bonds. It's clear that the Treasury is uncomfortable with the rise of long-term yields and is trying to intervene in the sell-off. High budget deficits remain an issue that forces the US to either accept higher borrowing costs, tighten fiscal policy or let the dollar weaken. Wall Street is starting to speculate about a return of the "debasement trade".

The buyback rally lasted one session

Cboe thirty-year yield index, five minutes, 18 to 20 August 2026

The index runs 08:20 to 15:00 in New York. The plain rules mark where the overnight hours fall; the dashed ones mark the 08:30 release and the last print before it.

QE held down the 10-year yield through 2014

Weekly yield; shaded periods mark Fed bond-purchase programmes

Observed yield, not a no-QE counterfactual. Fed staff estimate reductions of 12–34bp at launch and about 100bp cumulatively by end-2016; other macro forces also moved yields.

Why the rally failed

The market response to the intervention lasted only one session. The thirty-year yield fell from 5.27% before the release to 5.19% fifteen minutes later and reached 5.18% that morning. By the next morning, it was back at 5.27%, close to its pre-announcement level. In a press conference Bessent acted somewhat surprised by the reaction.

These buybacks are too small to change the Treasury market's overall supply-demand balance. The announcement also came outside the regular quarterly refunding process, which may make debt management less predictable. On the same day, President Trump also declared "Economic D-Day" on Iran and threatened sanctions against countries that trade with Iran. China buys more than 80% of Iran's exported oil and is therefore the main country exposed. It's unlikely that the U.S. would create further trade tension with China prior to the Trump–Xi meeting in September but even a hint of escalation can introduce further uncertainty into an already volatile market.

A resolution of the Iran war would reduce the energy-risk premium in long-term yields. Shipping through the Strait of Hormuz remains far below normal. Lloyd's counted 73 large-vessel transits in the week to 16 August, or roughly ten per day, compared with a pre-crisis rate of about 73 per day. Some vessels travel with their tracking systems switched off, so the precise count is uncertain.

Treasury's remaining options

Lower borrowing would be Treasury's main route to a lasting reduction in yields. This would require tighter fiscal policy or higher revenue. Treasury Secretary Scott Bessent entered office with a 3-3-3 economic plan intended to boost growth and curb government spending, but progress on both goals is lagging behind. Lower inflation would also reduce the yield investors demand. Bessent said the administration would present a fiscal-consolidation plan but has not provided details. It's unlikely anything will be presented before this year's midterm elections.

Issuing more bills and fewer long bonds would also reduce near-term long-bond supply. It would increase refinancing risk however and leave more debt exposed to short-term rates. Larger, regularly scheduled buybacks may improve liquidity, but Treasury must finance them by issuing other debt.

The Fed's options—and Warsh's constraint

The Fed has a more direct way to reduce long yields. Under quantitative easing, it buys long bonds and holds them on its balance sheet. This removes duration from private portfolios. By the end of 2016, Fed staff estimated that QE1 through QE3 and Operation Twist had reduced the ten-year term premium by about 100bp in total, with each programme lowering it by an estimated 12–34bp at launch. The Fed could also use a maturity swap or limited purchases. Rate cuts may lower long yields by changing the expected path of short-term rates, but the current inflation is making this step unlikely in 2027.

Kevin Warsh has argued for a smaller Fed portfolio with shorter maturities. A sustained QE programme would conflict with that objective, so Fed purchases are unlikely unless market functioning deteriorates. Treasury can ask the Fed to coordinate, but it cannot require an independent central bank to buy bonds. Any public request for purchases would test Warsh's balance-sheet stance and the Fed's operational independence.

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