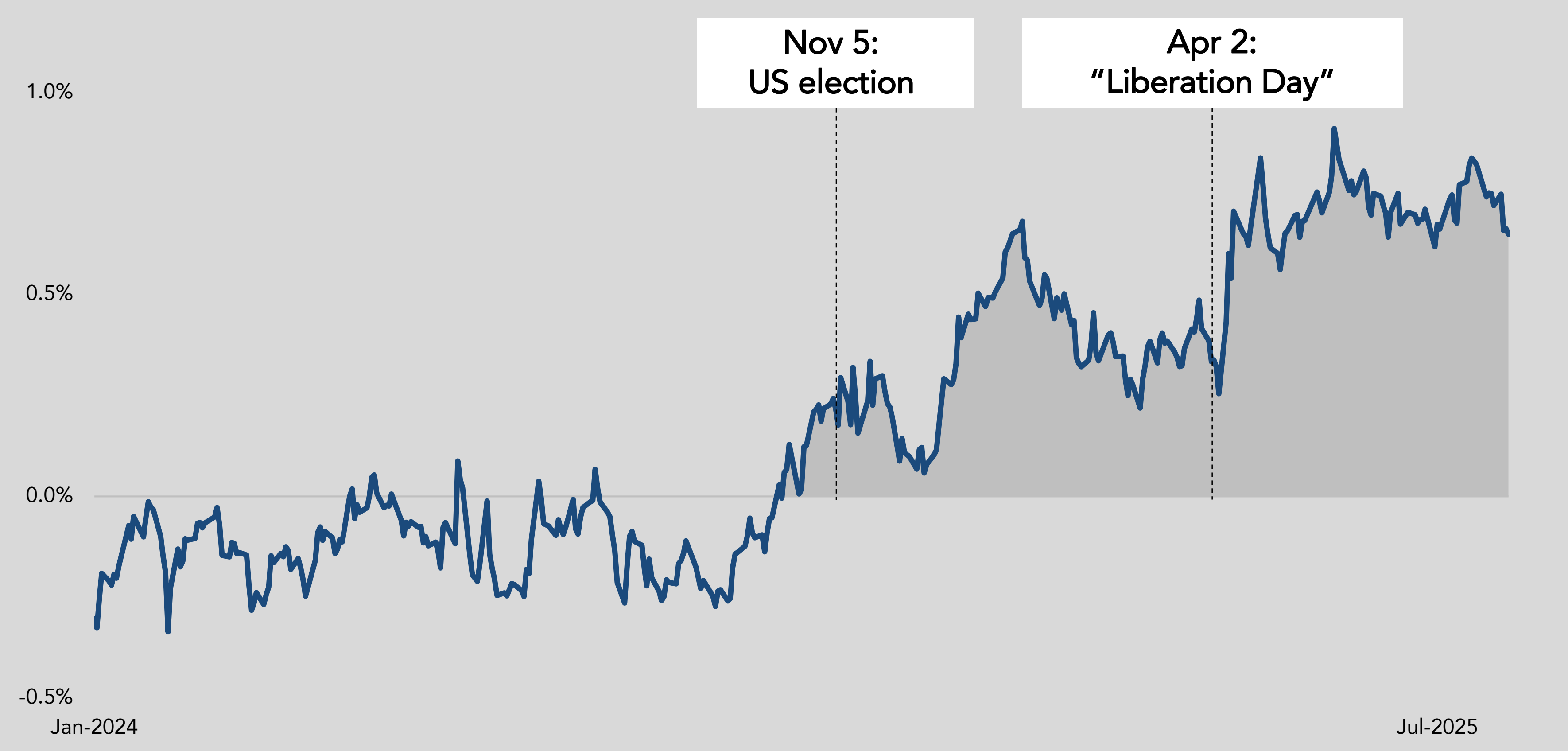
Chart of the Day

Rising Term Premia in UST Markets

Investors are demanding more compensation for higher policy risk in US government bond markets. The term premium in UST markets is the additional compensation that investors require to hold longer-dated bonds over shorter-term maturities. While numerous sources of macroeconomic volatility can be a factor, the most direct drivers of rising term premia have historically been: (1) interest rate risk; (2) inflation risk; (3) liquidity risk; and (4) supply risk.

Term premia resets higher

10 year term premium estimate

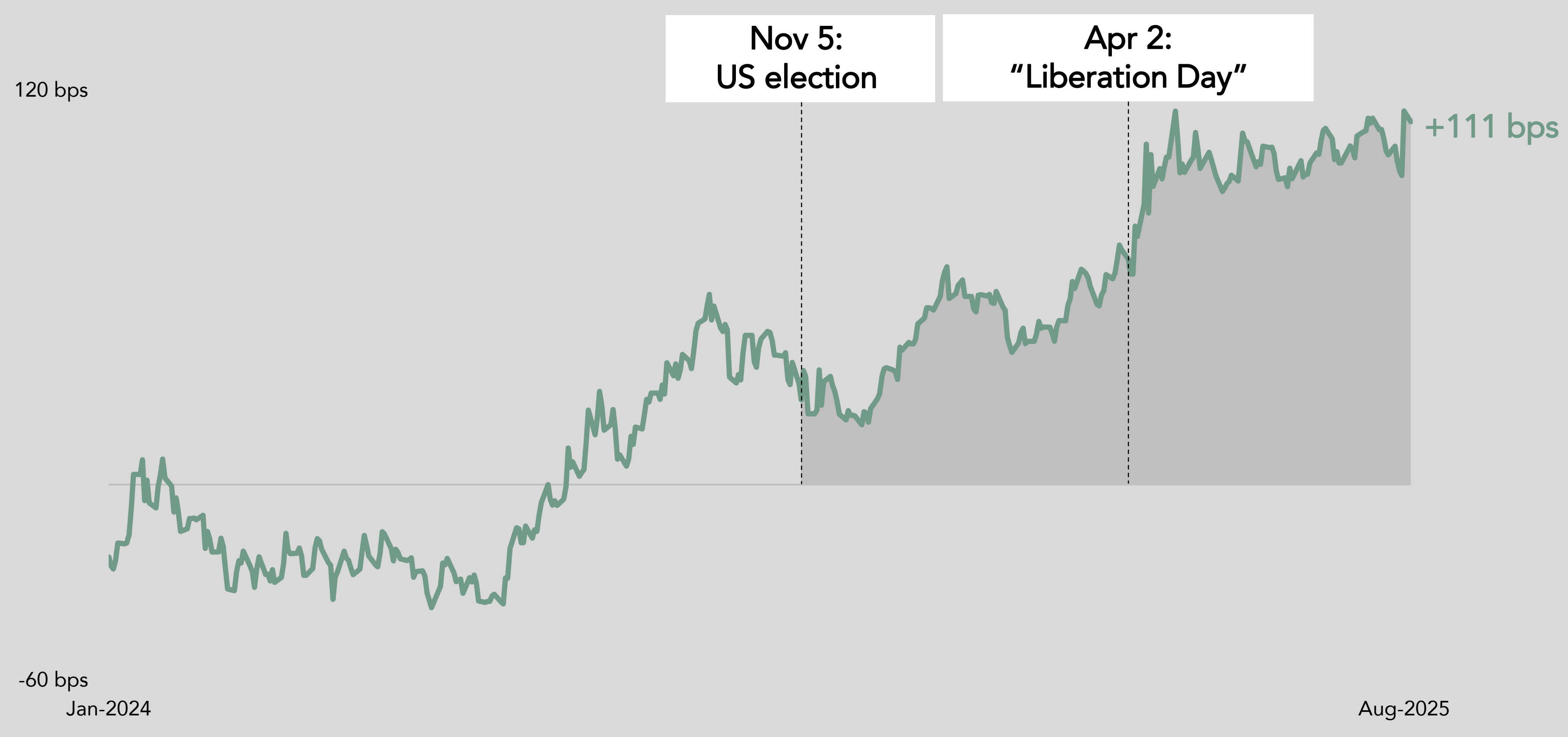


Driver #1: Interest Rate Risk

Investors face interest rate risk to the extent that future Fed policy decisions deviate from current expectations. As shorter maturity UST securities move lower on weaker data, and longer dated yields remain elevated on debt sustainability and policy confidence concerns (i.e., trade, fiscal, Fed independence), the UST yield curve has steepened.

Yield curve steepening

2s30s UST yield curve

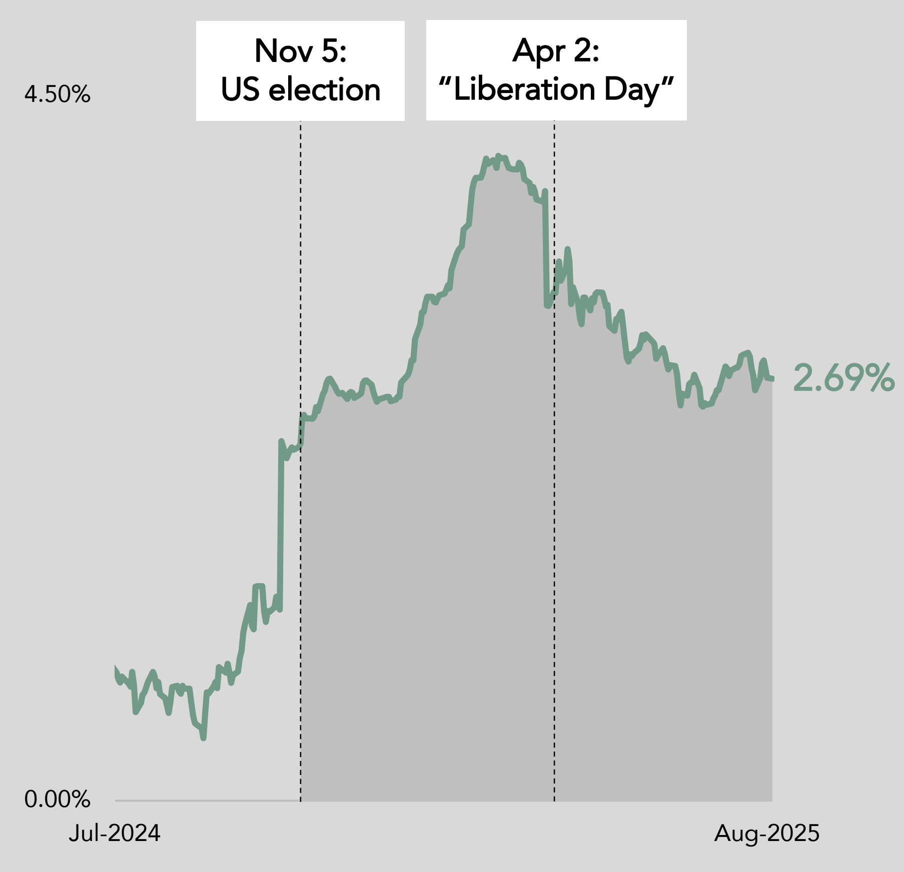


Driver #2: Inflation Risk

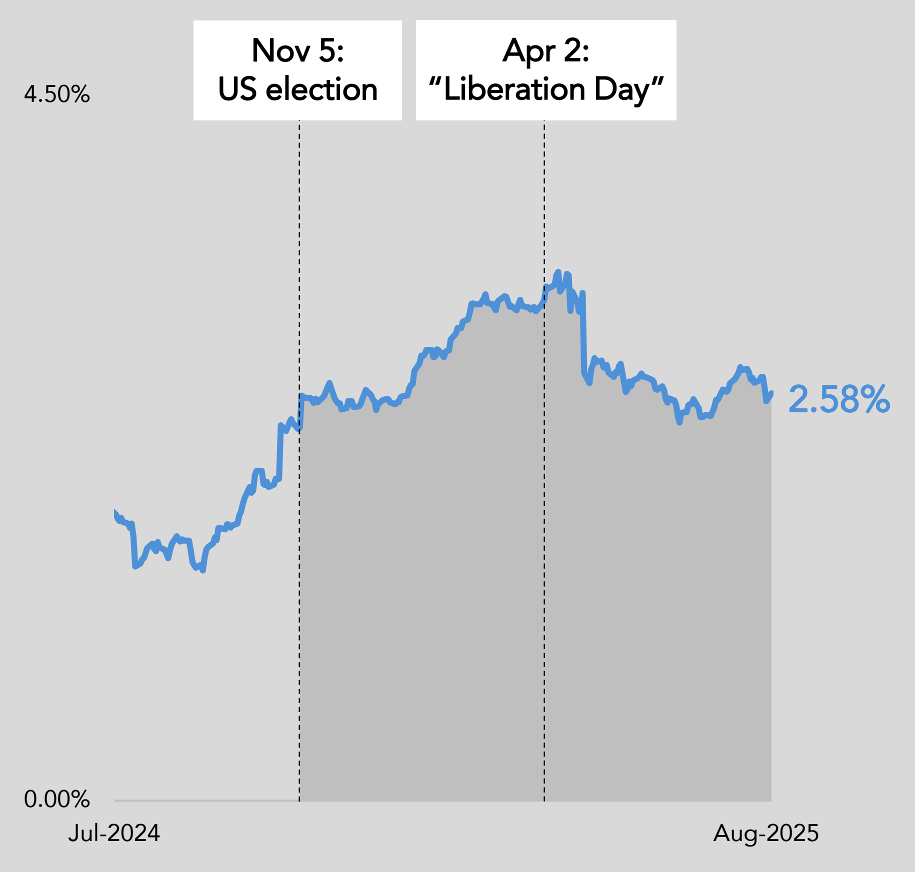
Expectations for US inflation have repriced higher for the impact of US trade policy and fiscal expansion. Even as the US growth outlook modestly weakens, US goods inflation may still move higher from here. If inflation rises more than anticipated, the real return on longer-dated bonds will decline.

Elevated US inflation breakevens

1 yr US inflation breakeven



2 yr US inflation breakeven

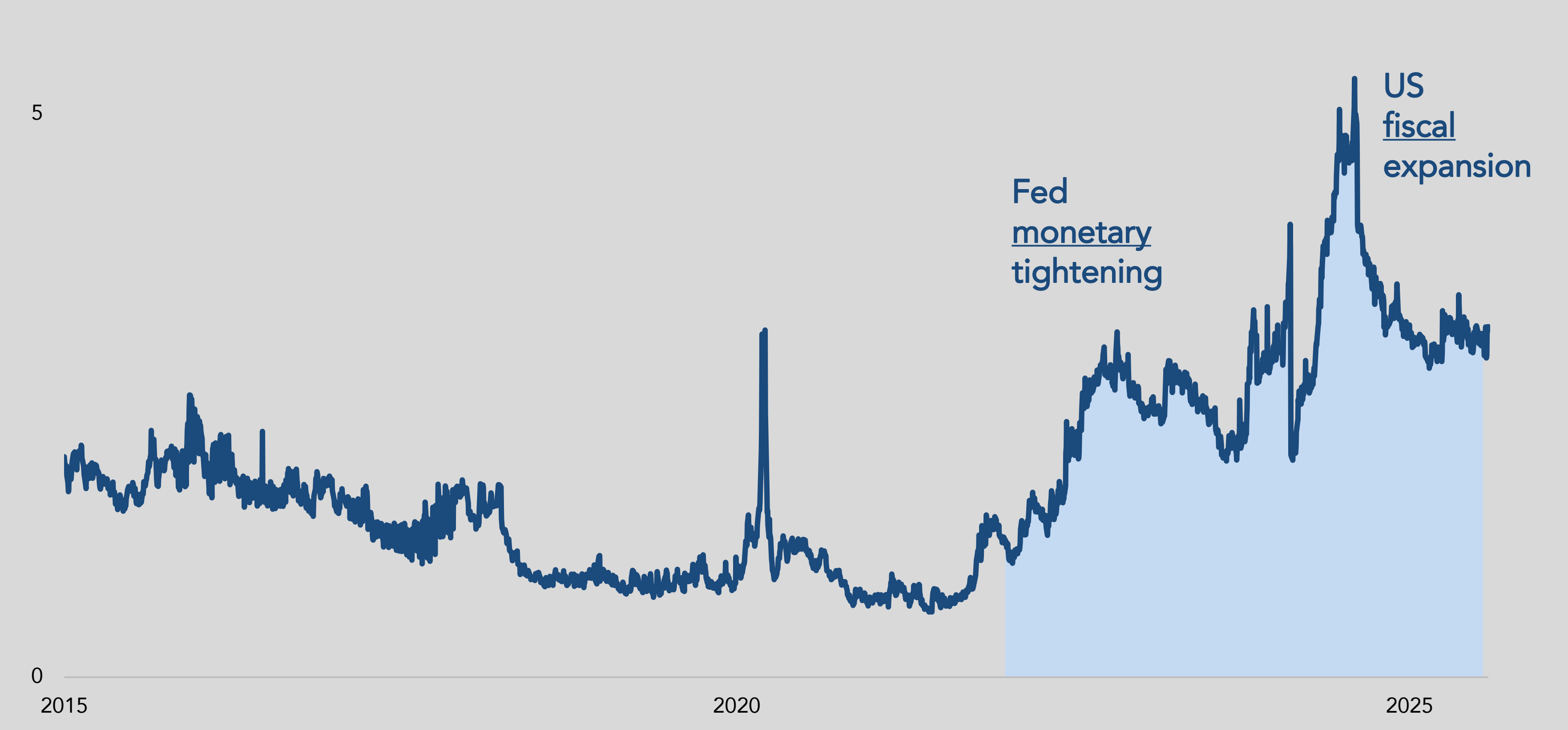


Driver #3: Liquidity Risk

Historically, liquidity in the US Treasury market and risk / term premium tend to move together. Since 2022, liquidity in the world's largest bond market has tightened considerably as a result of: (i) banks carrying less inventory due to regulatory constraints; (ii) elevated rate volatility on policy tightening; (iii) Fed QT (albeit at a slower pace); (iv) less sustainable US debt trajectory; and (v) concerns related to US policy consistency (i.e., trade, fiscal, Fed independence).

UST market liquidity tightening

US government securities liquidity index

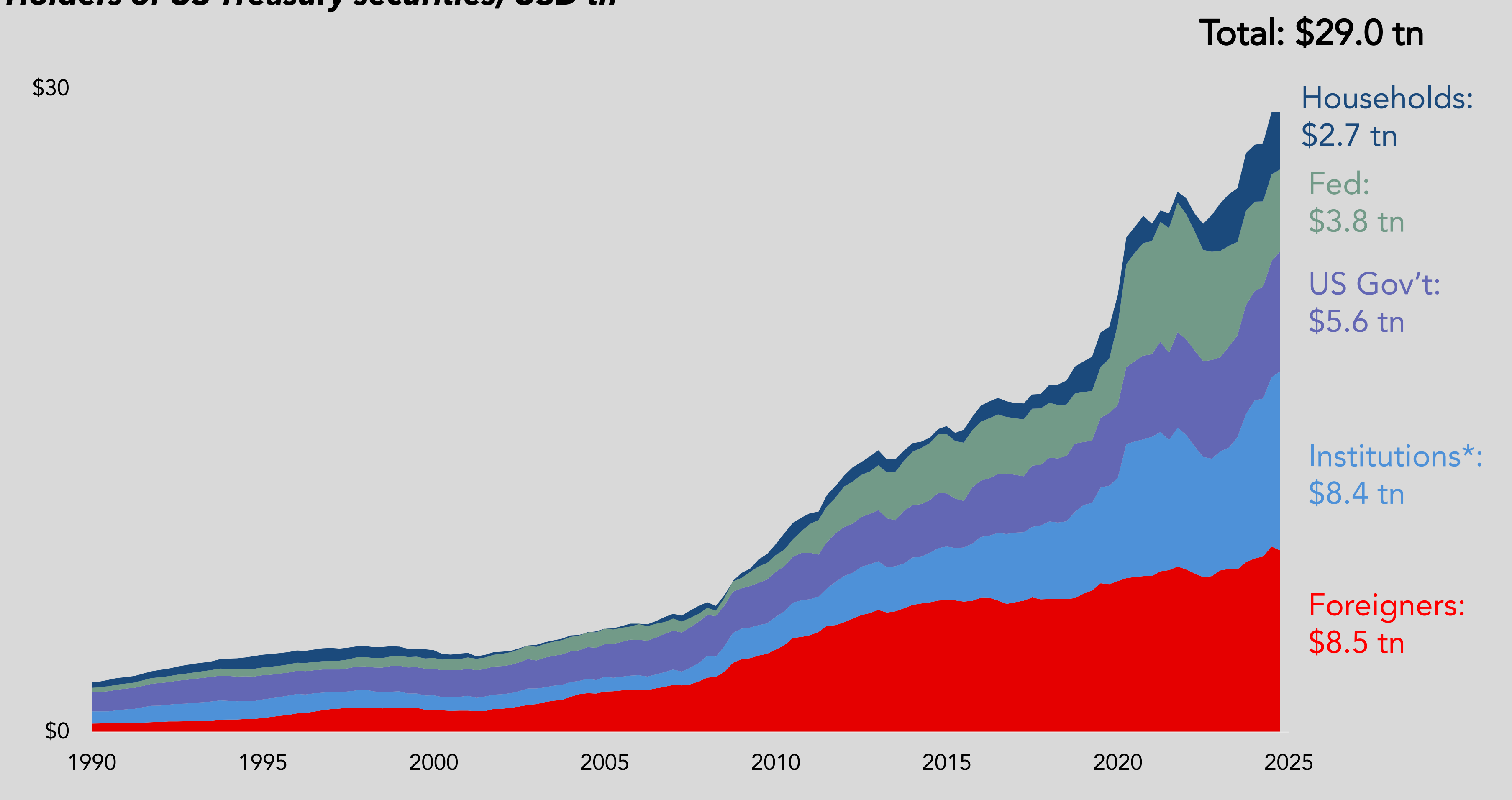


Driver #4: Supply-Demand Dynamics

At nearly $30 trillion, the US Treasury market is now just as large as the US economy (~100% of GDP). The OBBBA alone is expected to add $4-5 trillion to US deficits over the next 10 years, the largest peacetime fiscal expansion in recent decades. At the same time that UST supply is increasing, global demand for USTs may be undergoing gradual, structural regime change due to slower global growth, declining external surpluses and rising confidence concerns in US policy.

Rapidly rising UST supply

Holders of US Treasury securities, USD tn



**Institutional ownership includes banks, mutual, closed-end & ETF funds, pensions, insurance, ABS issuers & broker-dealers*

Source: (1-5) Bloomberg. Data as of August 4, 2025. (6) Federal Reserve. Data through Q4 2024. Financial Accounts of the United States, L.210 Treasury Securities. Gov't includes Federal, State & local governments, retirement funds and gov't sponsored enterprises. Total represents total marketable US Treasury debt.

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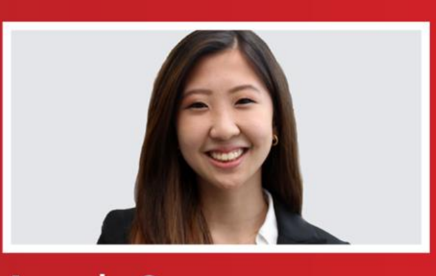

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"Macro stability isn't everything, but without it, you have nothing."