BBGI Group SA Place de Longemalle 1 - 1204 Genève - Suisse
T: +41225959611 - reception@bbgi.ch - www.bbgi.ch

Investments - Flash

BESSENT'S ANNOUNCEMENT IS COSMETIC AND HAS NO LASTING EFFECT

A recession and an asset reallocation will have a greater impact

Long-term Treasury bond yields are at their highest levels since the 2007 crisis: the 10-year yield is hovering around 4.75%, while the 30-year yield has surpassed 5.30%. The fundamental cause of this rise lies in investors' growing concern about the U.S. fiscal trajectory. With public debt nearing $40,000 billion and annual structural deficits persisting above $2,000 billion, bond buyers are demanding higher compensation to commit to long-term holdings. This is not solely due to fears of rising inflation and Fed rate hikes, but rather to concerns that the colossal volume of Treasury securities issued will fail to find buyers without a discount. Geopolitical factors and the ongoing de-dollarization trend are also driving some major investors, particularly those from the expanded BRICS nations, away from USD-denominated assets, thereby narrowing the pool of potential buyers. Today's announcement by Treasury Secretary Scott Bessent to step up repurchases of long-term debt, even if it appears to be viewed as a positive development by the market in the immediate term, is not good news. On the contrary, we view this as yet another signal highlighting the authorities' fear that the cost of carrying the debt will rise to unsustainable levels. Some investors may be tempted to take comfort in the idea that the Treasury is thus demonstrating that it is aware of the potentially disastrous effects of high interest rates on the economy and is seeking solutions to counter them. We believe this move is illusory. These buybacks will not reduce debt and could, at best, marginally lower the cost of carrying the debt, in any case, they will have to be financed by new T-Bill issuances. Ultimately, this will increase the Treasury's vulnerability to any rate shock. Furthermore, for this strategy to have a lasting impact, these buybacks would also need to be significant, which cannot be the case under current conditions. Even the Fed has resumed its purchases of Treasury securities only very gradually, as we had already predicted in December 2025, increasing the size of its balance sheet from $6.5 trillion to $6.7 trillion over seven months. In fact, as long as the political and fiscal equation remains unresolved, investor mistrust will continue to drive up the risk premium, all the more so if inflation persists at the end of the year. In our view, the U.S. Treasury is desperately trying to reassure investors so they will continue to finance the deficit with cosmetic measures similar to those implemented with the BoJ to prevent massive sell-offs by the largest international holder of U.S. debt. The bond market's salvation could come from an upcoming recession and a massive reallocation of assets from stocks to bonds.