CIO expects slowing growth and a weakening labor market would allow the Fed to resume policy easing later this year, which should result in lower yields. (UBS)

# Investors increasingly worried over swelling US debt burden

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**US Treasuries came under heavy selling pressure this week, with investors increasingly worried over the country's swelling debt burden. House Republicans have quickly advanced President Donald Trump's sweeping tax and spending cut bill, which was then passed in the lower chamber of Congress.**

More changes are expected to be made to the bill in the Senate before it receives full Congressional approval and is finally sent to President Trump for his signature. As it stands, the "One, Big, Beautiful Bill" would add trillions of dollars to the country's USD 36tr debt load over the next decade. While tariff revenue would serve to offset some of the rise in deficits from the budget reconciliation package, it will not lower deficits materially. Thus, the potential increase in the supply of Treasury debt to finance the spending, concerns over the inflationary effect of Trump's tariffs, uncertainty over Trump's next moves, and fewer Fed rate cuts amid resilient economic growth have all been key drivers of higher bond yields.

But we expect the market to recover and continue to see the 10-year yield falling to 4% by year-end as investors regain trust in US markets.

**The US's ability to repay debt is not in question, in our view.** The US has very high credit quality, with Treasuries remaining a perceived "safe haven" and a low-yielding USD asset. Global central banks also continue to value the Treasury market for its deep liquidity. Given the strength of US capital markets, the dollar's reserve currency status, and the significant wealth held by US households, we remain confident in the US's ability to repay debt.

**The Trump administration has demonstrated sensitivity to higher bond yields.** The 30-year Treasury yield briefly hit 5% last month before Trump pressed pause on the "reciprocal" tariffs that rattled global financial markets. It suggests the Trump administration is sensitive to market stress, and signals from Wall Street may lead to actions in Washington.

**The Fed has signaled its readiness to intervene if market functioning were to become impaired.** Given the importance of a functioning US Treasury market to the global financial system, we believe the Federal Reserve stands ready to act if required, as officials said last month when yields rose quickly. Additionally, the US central bank is considering changes such as reforming bank regulations so that banks can hold Treasuries without it affecting their capital ratios —which could create new demand for Treasuries and help bring yields down. Finally, we expect slowing growth and a weakening labor market would allow the Fed to resume policy easing later this year, which should result in lower yields.

So while there is a risk that deficit fears lead to progressively higher yields in the weeks ahead, we believe that the Fed and/or Trump administration would likely make adjustments in the event of much higher yields. In our view, this means high grade and investment grade bonds represent good value at current levels for investors seeking portfolio income.

Original report: **Quality bonds offer value despite Treasury volatility, 23 May 2025.**