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Why the US matters

Published on: 21 August, 2026 | Author: Investment Team

When a government controls the world's reserve currency and its benchmark bond market, it tends to use that control to help itself first. That is not new.

Over the past fortnight the US and Japan have intervened jointly to support the yen, and the US Treasury has stepped into its own government bond market to manage yields lower. Both moves are best read as a reminder that the US remains the largest, most powerful economy in the world, and that its administration is willing to use that position with little regard for the consequences elsewhere. Thoughts of America's demise are not relevant to most of our investment horizons.

The U.S. Treasury can influence bond yields in the short term because it controls the timing, quantity, and maturity mix of federal debt issuance. The Treasury cannot escape market forces and investors ultimately decide the price of Treasury debt, but its financing choices can materially alter the balance between bond supply and demand over weeks or months.

The most important lever is the maturity composition of issuance. When the Treasury funds more of the deficit through short-dated Treasury bills rather than 10- or 30-year notes and bonds, it reduces the quantity of long-term interest-rate risk that private investors must absorb. This can lower the term premium, support prices and reduce yields at the longer end of the curve. The debt has not disappeared, instead, it has been shifted into shorter-term instruments that require frequent refinancing.

It helps to picture a household swapping a 25-year mortgage for a rolling run of short-term loans. The total debt does not shrink, but the immediate repayments feel lighter, and the borrower avoids locking in today's rate for decades. The saving is real in the short run, but it comes with a catch: the household must keep refinancing, and each renewal exposes it to whatever the market happens to be charging that day. The Treasury is doing much the same thing, only at the scale of an entire economy.

The Treasury can also smooth auction sizes, vary issuance across maturities, and conduct buybacks of older or less liquid securities. Buybacks can improve market functioning by concentrating trading in benchmark securities and removing bonds that are less useful as collateral. More predictable issuance guidance also matters. If investors are confident that the Treasury will avoid unexpected surges of long-dated borrowing, they may require less compensation for supply and liquidity risk.

These actions operate alongside, rather than under the command of, the Federal Reserve. The Fed independently sets policy rates and determines whether its balance sheet is shrinking or expanding. However, when the Fed is easing, slowing quantitative tightening, or signalling that rate cuts are likely, Treasury financing decisions may have a larger effect on long-dated yields. The combined result can be a period in which yields decline despite substantial government borrowing.

Structural demand provides another source of near-term support. Treasuries are central to the global financial system: they serve as reserve assets, high-quality collateral, safe havens, and core holdings for banks, insurers, pension funds, money-market funds, and foreign central banks. In uncertain markets, demand for liquidity and safety can temporarily outweigh concerns about the rising supply of U.S. debt.

The US$ is central to this assessment. On 19 August 2026, the US$ fell as markets responded to Treasury market intervention and financing measures aimed at relieving bond-market pressure. While daily currency moves have multiple causes, the reaction highlighted a potential trade-off. Measures that support bond prices and ease financial conditions can also be read as increasing US$ liquidity or weakening the expected real return available to foreign investors. A sustained US$ decline could lift imported inflation and make foreign buyers less willing to finance U.S. deficits at prevailing yields. However, the positive is that it makes US goods and services cheaper to the world, increasing domestic output.

At Tacit, we still treat US government debt as the world's risk-free rate, and that is not about to change. But we hold that view with our eyes open.

In the diversified portfolios we manage, government bonds have one main job: to cushion against a sharp fall in equities. US TIPS currently form the foundation of that allocation, combining Treasury credit quality with some protection against inflation. That hedge has worked well for two decades because, historically, when shares have fallen sharply, investors have bought government debt for safety, pushing yields down and bond prices up on the same bad days for equities. That relationship suited the low-yield, low-inflation years since the financial crisis. With yields now structurally higher, and the Treasury actively managing them lower through the mix of what it borrows rather than through genuine disinflation, the real question this episode raises for us is not whether Treasuries remain the world's risk-free asset, but whether they still diversify a portfolio the way they used to. Our analysis shows that they fundamentally still provide this function, it is just that they are not doing it quite as explicitly are they did a decade ago, when the amount of debt in the world was lower.