Caron's Corner Bullets – 8.24.2026

The Maturity Transformation of U.S. Treasury Debt and What it Means for Asset Allocations

- **What is it?** The U.S. Treasury announced a $4 billion+ buyback of longer-term UST bonds (10 - 30-year), twice the normal size.

- **How does it work?** The Treasury will hold a reverse auction (Sept 9 – Nov 4) where primary dealers submit offers to the Fed, the agent for the Treasury who then buys and retires the debt. The purchases are funded by shorter-term instruments, so that the overall debt is not reduced, just the duration of it. This puts pressure on front-end rates to rise and flattens the yield curve.

- **Why?** The buyback attempts to slow the rise in long-term bond yields, hoping short-sellers will think twice about shorting USTs over this period. This is supportive of both the bond and equity markets.

- **What else is impacted?** The U.S. dollar is pressured to move lower, because if UST yields are kept artificially low, then an adjustment for foreign buyers is required.

- **The net effect?** The potential for easier financial conditions, namely higher equities, lower bond yields and a weaker dollar, should support financial markets.

- **Does this we mean we add duration? No!** The operation is temporary, designed to slow the rise in bond yields in the near-term, and does not change the trend for higher yields.

Jim Caron: Hello, this is Jim Caron, CIO of the Portfolio Solutions Group. Welcome to another edition of Caron's Corner powered by The BEAT, our asset allocation framework across Bonds, Equities, Alternatives, Taxes and short-term Transitional (cash) investing.

Last week was eventful in terms of policy actions, namely the buybacks that were announced by the U.S. Treasury. What we're undergoing is a maturity transformation of U.S. Treasury debt and what we'd like to discuss today is what it means for asset allocation. Let's get into it.

The U.S. Treasury just announced a liquidity buyback operation of longer-term U.S. Treasury bonds, the ten to thirty year segment of the curve, of at least four billion dollars in size, which is two times the normal size of such operations. So how does it work? Over the period of September ninth to November fourth, the quarterly refunding period, the U.S. Treasury will hold a reverse auction where primary dealers submit offers to the Fed, acting as agent for the U.S. Treasury, to buy back bonds and retire the debt. These purchases are funded by issuing shorter-term debt, so that the overall debt is not reduced, just the duration reduced. This will put pressure on front-end rates to rise and flattens the yield curve.

What does this do? It attempts to slow the rise in long-term bond yields such that short-sellers will think twice about shorting U.S. Treasuries over this period. This is potentially both supportive of the bond market and the equity market. So what gives? Something's got to give and something does. It's the U.S. dollar. The U.S. dollar becomes pressured to move lower because U.S. Treasury yields are artificially kept low. There then needs to be an adjustment made for foreign buyers through the currency. The net effect of this is the potential for easier financial conditions meaning higher equity prices, lower bond yields and a weaker dollar to support exports. All of this should support easier financial conditions and financial markets. Now one may ask whether one should buy or add duration in portfolios just because of this? No. The goal of this operation is to slow the rise in bond yields. It's temporary and does not change the trend for higher yields. Just look at the history of Japan trying to do this, which has been proven time and time again.

Let's look at the math of Treasury financing. The U.S. Treasury will balance the maturity of total debt to manage refinancing and rollover risk. This is true of any sovereign country. The current duration of U.S. Treasury debt is about 71 months, or 5 years and 11 months, with the peak coming in 2023 at 75 months. If you look at the long-term, twenty-year average of the maturity or duration of debt, it has been 65 months. This means the current duration of U.S. Treasury debt at 71 months is actually longer than the average. If the Treasury determines that refinancing and rollover risk will be mitigated if it reduced the duration of its debt by a few months over a longer period of time, then so be it. That's simply debt management, something not to make more out of than we have to.

There are other market factors driving long-term bond yields. As we are all aware, hyperscaler debt issuance has consumed corporate debt markets over the past 12 months, running nearly two times the pace with expectation of reaching in the area of $1.7 trillion. This clearly puts pressure on longer-term bond yields to rise, and it may be a motivation for the Treasury to manage its own debt duration. Additionally, if U.S. debt duration were kept longer at above-average duration levels, it is now at 71 months, then it could crowd out potentially more productive use of new capital raises by technology companies to fund CapEx that has been benefiting the broader markets. To mitigate this crowding out risk, it could be logical for the Treasury to reduce the maturity of its debt issuance.

With respect to market positioning and asset allocation, the action by the Treasury does not change our views. We remain structurally underweight duration because we believe that nominal growth rates are still very high relative to current U.S. Treasury bond yield levels. As we discussed in our last podcast, there is scope for bond yields to rise without crimping growth or equity performance as a result of the higher levels of nominal GDP, that based on 2Q26 data using PCE inflation, is running around 6.5% nominal growth rates. We remain overweight equities because higher nominal GDP tends to support earnings and free cash flows. We maintain our underweight in duration as well and some overweight into the credit sectors.

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