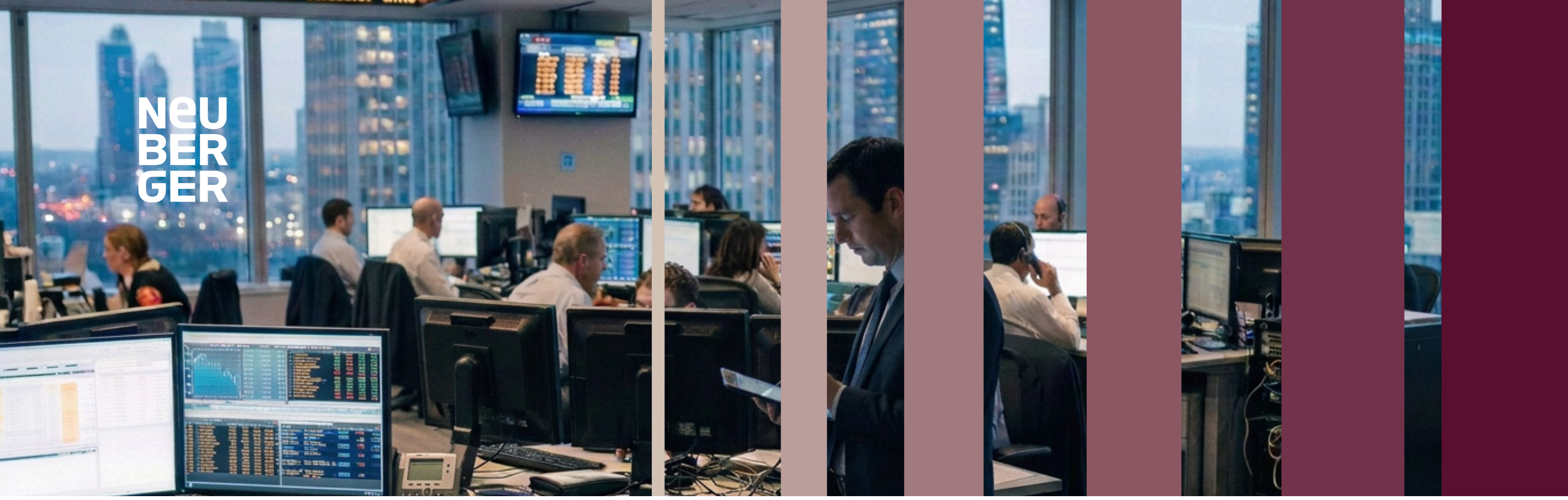

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When Capital Is No Longer Free: Rising U.S. Treasury Yields and the Repricing of Global Assets

A challenging fiscal picture may not cause investor flight, but it could lead to greater borrowing costs for a range of sectors and issuers.

The level of U.S. federal debt is frequently cited as evidence of an approaching fiscal crisis, but I think that conclusion is too simplistic. Yes, a publicly held debt load of around 101% of GDP[1] is historically high and clearly warrants attention, but I do not believe the level itself is necessarily problematic. A country's capacity to carry debt depends on a much broader set of considerations, including the size and growth of its economy, the cost of servicing the debt, the maturity structure of its obligations, the strength of its institutions and, importantly, the willingness of investors to continue financing it. The U.S. retains substantial advantages in each of these areas, including the world's deepest and most liquid capital markets and the dollar's central role in the global financial system.

What concerns me more is the elevated level of U.S. deficit spending, particularly at a time when the economy remains relatively strong. Persistent deficits require that increasing supply of Treasury securities be absorbed by investors, while higher interest rates simultaneously raise the government's debt-service burden. The question, therefore, is not simply how much debt the U.S. already has, but how much additional debt it intends to issue, and the return investors could require to finance it.

Structural U.S. Advantages May Be Starting to Wane

That distinction is becoming increasingly important. For decades, the U.S. has benefited from unusually strong global demand for dollars and U.S. financial assets. The dollar's reserve-currency status, the extraordinary liquidity of the Treasury market, confidence in U.S. institutions and the relative stability of U.S. economic policy have created a structural preference for U.S. assets. That preference has been enormously valuable because it has allowed the U.S. to secure financing at lower yields than might otherwise have been required.

[1] Source: Congressional Budget Office, *The Budget and Economic Outlook: 2026 to 2036*, February 2026.

We should not assume that advantage is permanent.

Current U.S. tariff policies, aggressive rhetoric toward longstanding allies, and the unpredictability of U.S. policy appear to be causing non-U.S. institutional investors to question the size of their dollar and U.S. investment exposures. This does not mean that foreign investors are abandoning the U.S., nor do I believe it implies an imminent challenge to the dollar's reserve-currency status. But the direction of the conversation has clearly changed.

This is evident from my engagement with institutional clients around the world. Discussions increasingly turn to the outlook for the U.S. dollar and whether portfolios should reduce or diversify some dollar exposure. Investors who historically viewed their dollar and U.S. allocations almost as structural holdings are increasingly asking whether it remains appropriate to keep them at current levels. That is an important change in behavior, particularly when the U.S. is simultaneously asking global capital markets to absorb substantially more Treasury issuance.

At the Margin, Investor Ambivalence Could Drive Higher U.S. Yields

The implications do not require a dramatic move away from U.S. assets. At the margin, a reduced willingness of foreign investors to increase their holdings—or a desire to diversify incremental capital elsewhere—could be sufficient to trigger higher Treasury yields. Higher sovereign yields in other developed markets only make those alternatives more credible.

This is where the widening of the Treasury term premium becomes particularly important. Investors appear to be demanding greater compensation for holding longer-duration U.S. government debt. Persistent fiscal deficits, greater Treasury supply, inflation uncertainty and higher sovereign yields elsewhere are all contributing factors. Increasing geopolitical uncertainty and questions surrounding future foreign demand for U.S. assets may increasingly be reflected in that premium as well.

Treasury buybacks and similar initiatives can improve market liquidity and the functioning of the Treasury market, but they are technical responses. They do not address these underlying structural issues. Over time, I believe the U.S. will need some combination of greater fiscal discipline, stronger economic growth, higher yields to compensate investors for holding an increasing supply of debt, and/or inflation and currency depreciation that reduce the real value of that debt.

For Investors, the Implications Extend Well Beyond Treasuries

A higher term premium ultimately raises the required return for every asset class. If investors can earn a higher return from long-duration U.S. government securities, the return required for assuming credit risk, equity risk, leverage, illiquidity or complexity should also increase. As the relative attractiveness of public credit improves, private credit must offer sufficient additional compensation for illiquidity, equity and private-equity valuations face higher discount rates, and real assets must be evaluated against a higher underlying cost of capital.

Viewed within an Integrated Capital Framework, this is therefore not simply a decision about whether to own more long-duration bonds. A higher term premium changes the relative attractiveness of opportunities across the entire portfolio. Expected returns, liquidity, factor exposures, financing costs and the required compensation for illiquidity all need to be reconsidered against a higher risk-free rate. The relevant question becomes where the next dollar of capital most improves the portfolio—not which traditional asset-class allocation should mechanically increase or decrease.

A Key Trend to Watch

The U.S. continues to possess enormous structural advantages, and I do not believe a 101% debt-to-GDP ratio alone represents an imminent crisis. My concern is the direction of travel: worsening deficit spending even as some investors are questioning the extent of their dollar and U.S. exposures.

The U.S. will continue to have access to capital. The increasingly important question is, at what price.

About the Author

Steven Meier is Vice Chair of the Institutional Client Group and a member of Neuberger's Asset Allocation Committee and Public–Private Investment Committee. He has more than 40 years of global investment experience, previously holding senior roles at State Street Global Advisors, Credit Suisse First Boston, Oppenheimer Capital and Merrill Lynch. Steven has also served as Chief Investment Officer of the New York City Retirement Systems and as Interim CIO for the State of Connecticut's public pension plans. This article builds on Steven's continuing dialogue with institutional investors on a global basis, sharing perspectives, ideas and innovations to foster effective solutions to their long-term investment challenges.

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