



Treasury Hide and Seek

The “Sell America” anxiety is back, driven by new geopolitical flashpoints and concern about US policy risk. Market observers present lots of handwringing on days when equities, the dollar, and Treasuries slide simultaneously. Flows out of equities and dollars have mechanical explanations; years of strong performance have forced portfolio managers to overweight exposure to US equities, and the dollar has been historically overvalued due to its role in trade and reserve status. The greatest concern, however, is centered around foreign ownership of Treasury bonds. A recurring fear is that foreign powers could “weaponize” their holdings by dumping them on a large scale. Most recently, a rumor ran through markets in July that Japan dumped its massive reserves in retaliation for the ongoing trade dispute. A geopolitically driven fire sale has not been born out in the data. We believe the dynamics suggest that a mass dumping of Treasury bonds is not likely.

The largest foreign holders are currently Japan, China, the UK, and NATO-member EU nations. For these actors, selling is currently constrained by market structure, their own balance sheets, and geopolitics.

- 1.) Treasuries are still the lubricant of international trade and financial markets, functioning as near-money through their role as collateral in secured short-term funding markets. Global financial activity finances its activities through secured borrowing, and the massive liquidity, depth of market and low credit risk of Treasuries have made them the primary form of collateral. Simultaneously, global trade and cross-border balance sheets remain dollar centric. Local banks and exporting businesses have assets and liabilities denominated in dollars, regardless of their transacting directly with the US. In a world of dollar transactions, Treasuries are the most scalable dollar-denominated store of liquidity that can be mobilized immediately for funding, hedging, and settlement .
- 2.) Any *en masse* dumping would incur massive execution and mark-to-market costs. The Treasury market is deep, but not deep enough to absorb hundreds of billions or trillions of dollars in sales in a short time span without sharp price concessions. As dealers and end-buyers reach balance sheet and risk limits, market depth thins and bid-ask spreads widen. The seller then faces both worse realized execution prices

and adverse mark-to-market moves on the portion of the portfolio that has not yet been liquidated. In practice, that devaluation often shows up at home as higher risk premia, driving wider funding spreads, reduced market-making capacity, and a generalized pullback in domestic lending and trade finance.

- 3.) The geopolitical risk is massive. The relationship between the US and a nation dumping its holdings of Treasuries would have to have escalated to the point of near armed conflict. China is trying to position itself as a rational, non-imperial alternative hegemon to the United States. Their selling would appear highly reactionary. The EU and Japan, despite current popular sentiment, are too interlinked with the US. This action would decimate their own economies and destroy any relationship with their largest partner. Less broadly, Treasuries, even if owned by sovereign entities, remain firmly on US-controlled payment rails. Transactions are settled eventually through Fedwire or U.S.-regulated correspondent banks. The 2022 freezing of Russian reserves showed an ability and willingness to use this lever in geopolitical conflict.

We view the risk of a sudden Treasury fire sale as low over a 1–3 year time horizon. That said, if geopolitical tensions intensify and global settlement patterns gradually diversify away from the dollar, the incentives at the margin could shift. The more realistic risk is not a one-day liquidation, but a slow change in the composition of the marginal buyer of new Treasury issuance—potentially increasing volatility and term premium at times.

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