

Major Markets Letter #13

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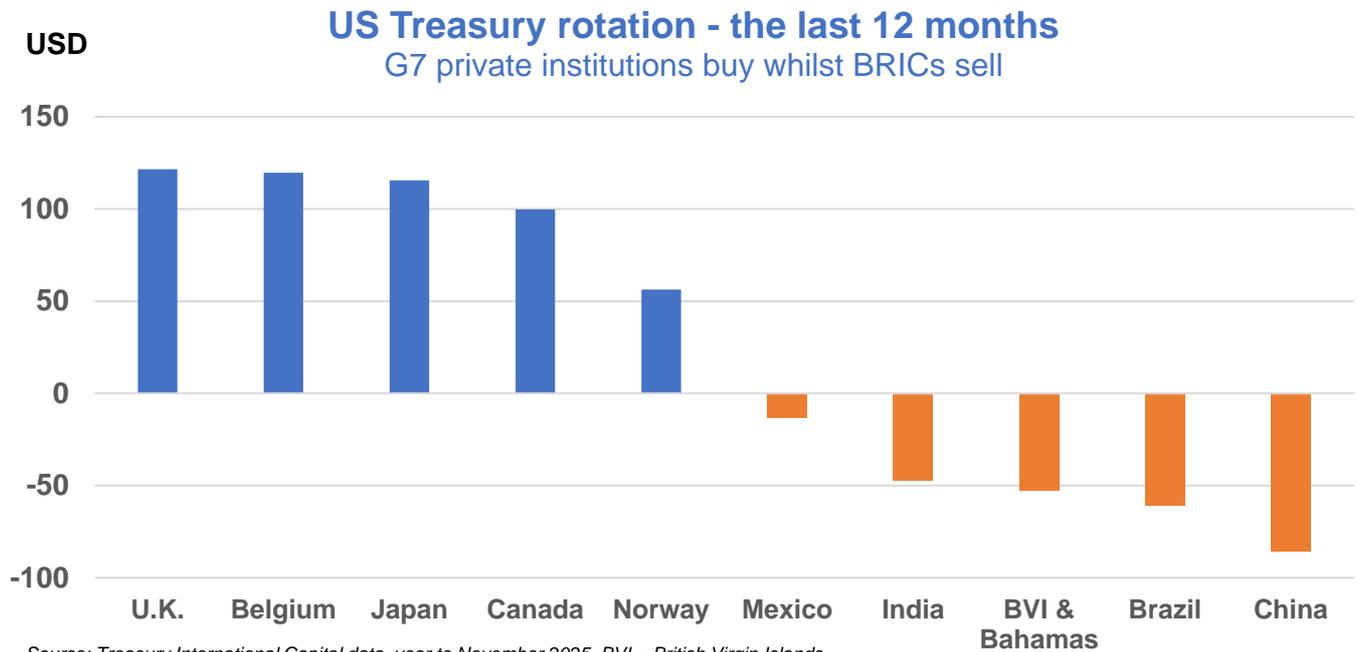
Geopolitical Barometer

Is the U.S. Treasury still the ultimate safe haven? It's the key question from investors.

Financial markets are currently navigating a gauntlet of geopolitical hotspots, and whilst the current focus is the Middle East, not long ago it was Venezuela and Greenland. Traditionally, U.S. Treasuries have served as the "geopolitical barometer," yet as global uncertainty climbs, many are questioning if they remain the safe haven they once were. Recent trends suggest the answer isn't a simple "yes" or "no," but rather that there has been a fundamental shift in the base of marginal buyers.

The "Denominator Effect" and Ownership Rotation

While foreign ownership of Treasuries has reached **USD 9.4 trillion**, an absolute increase of one-third over the last decade, its relative influence has actually shrunk from 47% to 31%. This isn't due to a lack of interest, but a massive expansion of the market itself - the "denominator effect" - as the total outstanding tradeable debt surged from USD 13 trillion to over USD 30 trillion.



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As the influence of foreign central banks wanes, new domestic pillars are emerging:

- **The privatisation of ownership:** Private sector investors, at home and abroad, now hold roughly 70% of Treasuries, a massive leap from a decade ago when they were on par with the official sector.
- **Yield sensitivity:** These private buyers are driven by the prospect of stable income and whether there is sufficient term premium to compensate for duration risk. This is very different to the mercantilist policies that may have driven Treasury accumulation in the past.
- **Digital safe havens:** Stablecoin providers like Tether and Circle have become "top-tier" creditors, and are a welcome source of demand, although their preference for T-Bills introduces a specific concentration risk.

Shadow Holdings and the Pivot to Gold

Glance at the chart and the first impression might be that this must be the result of a division along the lines of friends versus foes. Indeed, the so-called BRICs countries have been sellers (Brazil, Russia, India, and China), whilst the main buyers are "friendly countries" in developed markets. But there is more to it.

- **Geopolitical anonymity:** While China's direct holdings have dropped from 10% to 2%, much of this volume has likely rotated into third-party hubs like Belgium, which acts as a host for Euroclear, one of the world's largest clearing houses. Furthermore, when a currency is being managed, if we can't see the dollars in the central bank's accounts they are likely to show up elsewhere.
- **Gold standards:** A clear divergence has appeared among BRIC nations, which are swapping Treasuries for physical gold. Russia is the most extreme example of this de-dollarisation, having replaced frozen assets with gold that has since appreciated significantly.
- **Valuation tailwinds:** With gold prices doubling over the last year, central bank gold reserves are now rivalling Treasury holdings in total value.

Why Yields Aren't Falling

If Treasuries are still a safe haven, why haven't yields dropped more during recent crises?

Recent price action at the beginning of March suggests safe-haven demand is already largely priced in. Treasuries had already decoupled from oil, for example, which left many investors scratching their heads. More longer-term, the shift from "mercantilist" central banks to "yield-sensitive" private investors means that the market now demands a premium for risk that was previously ignored by the official sector.

Put differently, with the marginal buyers in the private sector, the US Treasury market needs rate cuts, and more than priced-in by the forwards if yields are to move meaningfully lower. This may be something for the second half of this year, depending on the data.

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In the meantime, the U.S. Treasury market is undergoing a profound structural evolution. It remains the world's deepest pool of liquidity, but its role is being redefined by private capital, digital assets, and a renewed global appetite for gold.

Is the U.S. Treasury still the ultimate safe haven? Yes, for the private sector at least.

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