

Opinion | 28 September 2026

RATES UNITED STATES

Here's how US Treasury Secretary Bessent could tempt the 10yr yield back down

Most of the rise in long-dated rates reflects traditional printed inflation, reactive rate hikes and a persistence of higher real rates. So, we've actually not had a US fiscal-related selling tantrum. If we did, and it was severe, the US Treasury could feel forced to take more extreme action. We examine how that might look



US Treasury Secretary Bessent has options to lower the yield on 10yr Treasuries, including bigger buybacks and cancelling long-end auctions

A quick snapshot of what's to come

Here we examine a scenario where the US Treasury chooses to take material action on the back end of the curve, targeting lower yields. We'd argue that there is no need for that right now, as US Treasuries are not trading at particularly elevated yields relative to SOFR rates. That said, if the US Treasury were to choose to take action, say through bigger buybacks and/or cancelled 20yr auctions, this should be expected to do no more than richen Treasuries versus swaps.

A more aggressive broader cancellation of long-end auctions might be required to create a meaningful shock to the rates market. While this theoretically should not impact SOFR rates, in fact we find that the 10yr SOFR rate is currently some 50bp too high. Auspiciously, US Treasury market activism could well present enough of a jolt for long-end SOFR rates to gap lower. At the extreme, there is a path where this entire combination brings 4% back into focus for the 10yr.

We're not calling for it, and in fact would not advise it. But it does seem that the US Treasury may be mulling something along these lines, albeit likely a milder version. That is unless forced there through a proper Treasury market sell-off, which, in fact, we've not seen since the 'Sell America' week post 'Liberation Day'. But that's also when aggressive action could be more defensible, if only to avert wider ancillary risks for the debt path and the economy.

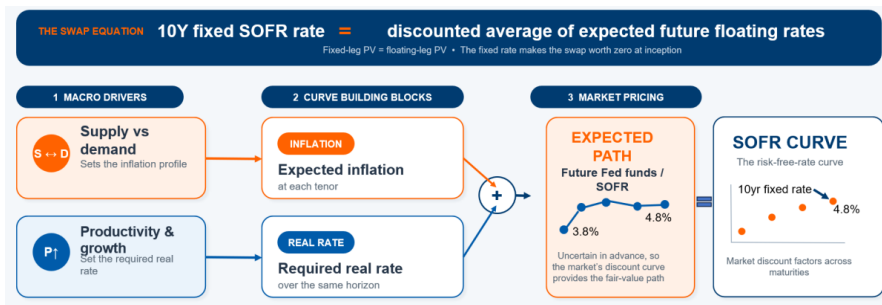
The SOFR curve sets a theoretical floor for Treasury yields

First, an important assertion – while the determination of the 10yr Treasury yield is a tad opaque, and indeed, open to subjectivity, the estimation of the 10yr SOFR rate is a pure mathematical outcome. This is so important, as it helps frame what the US Treasury can and can't do when it comes to control of long tenor yields.

Why is the 10yr SOFR rate a mathematical outcome? Because, as any swap dealer will tell you, it's that rate that breaks even against the expected profile for the funds rate. The fixed 10yr rate is set to equal the average floating rate that is discounted over the lifetime of the swap. We don't know with certainty how the funds rate will evolve in the future, hence the deployment of the market discount as a fair value path.

The SOFR curve is the risk-free rate curve. That risk-free rate curve evolves as a set of market discounts that is dominated by the evolution of inflation, and the required real rate to be set against that inflation profile into the future. Every tenor will have an inflation expectation and a suitable real rate over the timeframe in question. This in turn is driven by macro forces. Inflation is set by where supply meets demand, while real rates are set by productivity and real growth circumstances.

The SOFR rate as a pure break-even calculation



Source: Macrobond, ING estimates

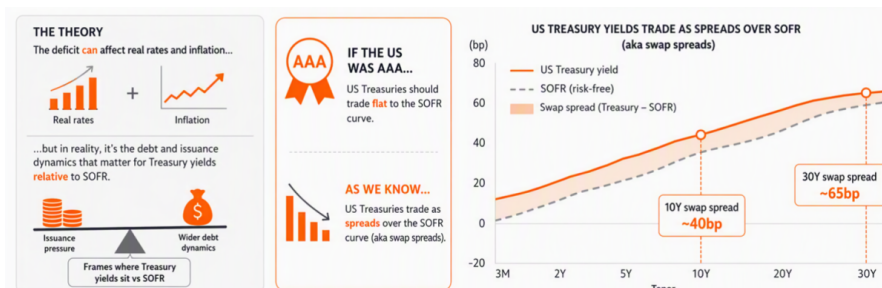
US Treasuries trade as a spread over the SOFR curve

So far we've not even mentioned the US fiscal deficit, because we don't actually need to. Theoretically, the deficit *can* affect real rates and inflation, but in actuality, the size of the fiscal deficit, issuance pressure and wider debt dynamics frame where US Treasury yields sit *relative* to the risk-free rate curve (SOFR). If the US was considered a top-rated (aka AAA) credit, then US Treasuries should trade flat to the SOFR curve. As we know, that's not the case. US Treasuries trade as spreads over the SOFR curve (aka swap spreads). The 10yr swap spread is just under 40bp. In the 30yr tenor, the spread is 65bp. That's the spread the US Treasury must pay over the risk-free rate to compensate for its poor fiscal position.

This separation is really important when it comes to framing what the US Treasury can and can't do if attempting to manage long-end rates. What the US Treasury *can* attempt is to narrow swap spreads. This could be achieved through buybacks or reductions in long-end issuance. And by the way, since the buybacks were recently increased, long tenor swaps spreads *have* tightened. In that sense, we disagree with the idle comment that the buybacks have not worked (as long-end rates have not fallen). We'd argue they *have* been successful as long tenor swap spreads have narrowed.

Credit fundamentals and supply versus demand determine where Treasuries sit versus SOFR

Aka swap spreads



Source: Macrobond, ING estimates

What can the US Treasury do and what are the constraints

If the US Treasury wanted to get really serious about impacting the back end, it could get more aggressive. In the extreme, it could cancel 10yr, 20yr and 30yr auctions for the foreseeable future. It could even add on increased long-end buybacks on top of that, so that we have an absolute shrinkage of long-dated bonds outstanding. If the US Treasury did this, they should expect to see long-dated US Treasury yields trade right up to SOFR, and quite probably through the SOFR curve (Treasury yields below SOFR rates).

One issue is this would place pressure on more bills issuance at a time when the Fed is on a rate-hiking path. Such an 'operation twist' extreme is unlikely to occur unless it were absolutely necessary. At the moment, it's not what we would call necessary, mostly as swap spreads are not out of control. More buybacks and/or cancellation of, say, just 20yr auctions should be enough to tame swap spreads further, without the need for such radical action. This tamer outcome is more probable at this juncture.

But consider an exceptional scenario where the 10yr swaps spread shot out to, say 100bp, or even 200bp. Seems extreme? Maybe. But note that so far, we've actually not had a big bad Treasury market sell-off. If we did, Treasury yields would rise off their own bat, significantly widening spreads above the SOFR curve. This is the point where the US Treasury could indeed consider stepping in, in an effort to narrow long-end swap spreads (to re-richen Treasuries vs swaps). Go big enough here, and long-end Treasury yields could trade below SOFR rates, but it would have to be big (as described above).

Why the SOFR floor curve is overly elevated to begin with

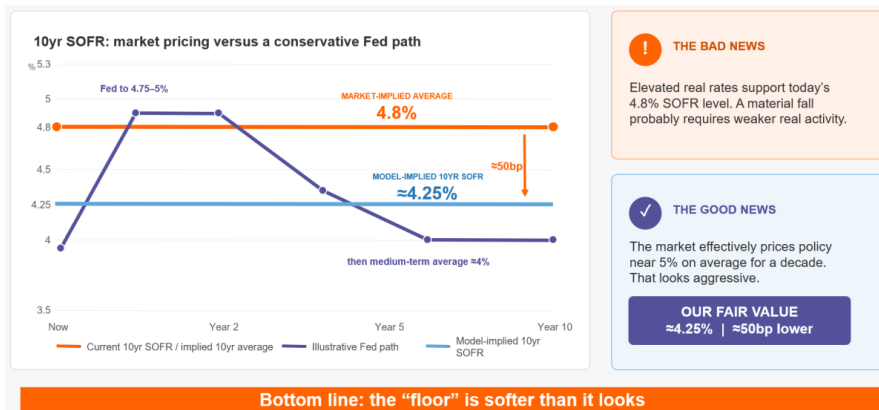
But what about SOFR rates. Surely they present something of a floor for Treasury yields? Well, there is good news and bad news here. The bad news is that the current 10yr SOFR rate (at 4.8% currently) is there because of elevated real rates, and if these were to come down, it risks coming from a reduction in real economic activity. But the good news is the current 10yr SOFR rate is effectively discounting Federal Reserve hikes to 4.75% - 5%, and it continues to average there for the next 10 years (averages c.4.8%, and hence generates a zero alpha versus the 10yr fixed rate). That appears to us to be quite an aggressive market discount. Specifically, it's far more probable that, wherever the funds rate gets to on the upside, in all probability it ends up averaging much lower than 5%.

Our simulations show that if the Fed hiked the funds rate to 4.75% - 5%, then held there for a couple of years, and subsequently conservatively cut to average 4% into the medium term, then the 10yr SOFR rate should be lower by some 50bp (in the 4.25% area). In fact, this is where we think the 10yr SOFR rate should be in any case.

This is good, as any intervention action needs a good entry point. This one is good, as the

structural rate hike discount is effectively overdone (as described above), resulting in an inflated 10yr SOFR rate. Some of that inflation can be unwound through the spark of Treasury action.

The 10yr SOFR rate can be 50bp lower should the medium-term discount for the funds rate tame



Source: Macrobond, ING estimates

Go big, and the 10yr yield can target 4%

If the US Treasury decided to go big on tempting back-end yields down, then:

1. Stage one could be to get the US 10yr Treasury yield to trade flat to SOFR, which equals a 40bp fall
2. Stage two could be for that policy to prompt an absolute fall in 10yr SOFR by the aforementioned 50bp

In total, the absolute 10yr Treasury yield falls by some 100bp. So, instead of trading at 5.25% as it currently does, it trades down to SOFR flat at 4.25%. And maybe even through, and by some 25bp is conceivable. That's how Treasury Secretary Bessent could even get to 4% for the 10yr. But something in between, say comfortably back below 5% for the 10yr, could also be a tolerable outcome.

Whether this would be a good thing or a bad thing is a whole other affair. Our thinking is that extreme policy action would only be warranted if swap spreads were to widen sharply in a US Treasuries-specific sell-off (not calling for it, just saying). Then it could be construed as damage limitation for the wider economy. If not, the bazooka approach could risk causing more harm than good from a medium-term credibility perspective.

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