Macro Signposts | Buybacks, Market Functioning, and Treasury Predictability

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Last week, the U.S. Treasury Department surprised the bond market by announcing that it would at least double selected long-end bond buybacks. Long-term yields initially fell but quickly reversed, raising questions from many investors and observers about what this could mean for Treasury's debt management strategy and its long-held view that "regular and predictable" issuance best serves its goals to minimize borrowing costs for the U.S. government.

Our view is that buybacks can help with market functioning and reduce Treasury borrowing costs on average over time, especially if Treasury aims to establish itself as the new "market maker of last resort" – a role that the Federal Reserve has wanted to step away from. However, Treasury by itself can't completely alter the fundamentals that drive longer-term Treasury pricing. Indeed, as my colleagues wrote last week (PIMCO Perspectives: "What's Pushing Long-Term Bond Yields Higher?"), longer-term yields have risen globally for several reasons, including still-large post-pandemic fiscal debt burdens, rising policy and inflation uncertainty, and, more recently, heavy AI-related corporate issuance.

Importantly, for the bond market, stability in Treasury debt management strategy is key. The 1970s are a cautionary tale for the costs and risks of opportunistic funding. Complementing "regular and predictable" issuance by providing a well-understood, stable liquidity backstop to guard against bouts of market dysfunction should be positive for the market.

Currently, Treasury funds itself at 5.2% at the 30-year point on the curve – that's 70 basis points above the similar-maturity fixed-rate swap (according to Treasury and Bloomberg data). Part of the discrepancy can be interpreted as the rate the market "charges" to hold Treasury collateral. There is a lot of room for Treasury, through enhanced market liquidity policies, to compress that rate for better funding levels for the government.

Some background and history on Treasury debt management strategy, including buybacks, could help clarify what may lie ahead for Treasury markets.

Kenneth D. Garbade. "The Emergence of 'Regular and Predictable' as a Treasury Debt Management Strategy." Federal Reserve Bank of New York Economic Policy Review (March 2007) Return to content□

U.S. Treasury Department, Office of Debt Management, "Presentation of U.S. Treasury's Debt Issuance Framework" (19 November 2015) Return to content□

"Considerations for Optimal Debt Issuance." Treasury Borrowing Advisory Committee (November 2025) Return to content□

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