Trump and the Bond Market

Why a Flight From U.S. Treasuries Is Unlikely

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Donald Trump's presidential campaign frightened bond market investors around the world. Trump pledged to slash federal income taxes and spend up to $1 trillion upgrading the United States' infrastructure. Investors worried that his victory would lead to massive federal deficits and runaway inflation, eroding the value of their holdings. The title of an April 2016 article in *Forbes* captured the mood: "President Donald Trump Would Destroy the Bond Market."

The anxiety was particularly acute among foreign investors, who own around 40 percent of the $14 trillion worth of outstanding U.S. Treasury securities. When Trump hinted during the campaign that he would "make a deal" with creditors to reduce the value of their Treasuries, pundits asked whether the Chinese and Japanese central banks would begin to sour on the U.S. debt they had been stockpiling as part of their foreign exchange reserves.

To be sure, foreign confidence in U.S. Treasuries had wavered long before the 2016 election. In recent years, budget deficits, quantitative easing, and the political dramas surrounding the debt ceiling and other fiscal issues had put the creditworthiness of the U.S. federal government in doubt. Still, the prospect of Trump's victory introduced a new dynamic altogether, leading some observers to fear that a panicked selloff of Treasury securities could be around the corner.

The stakes were high. The U.S. Treasuries market is the largest and most liquid financial market in the world, and as the world's premier low-risk assets, U.S. Treasuries are a benchmark against which most other assets are priced. U.S. regulators require banks to hold Treasuries as part of the safe assets on their balance sheets, and investors turn to Treasuries as safe havens in uncertain times. Treasuries have also been the linchpin of U.S. global financial power: steady foreign demand for them has allowed the United States to cheaply finance big deficits.

In the week after the November 8 election, around $1 trillion was wiped off of global bond markets as investors moved away from U.S. and other government debt. But that was no panic, and for a few reasons, U.S. Treasuries will probably remain the world's premier risk-free asset. The first is a lack of attractive alternatives from other governments: the U.S. bond market is the best of a questionable batch. The second is that the big companies and superwealthy families in the United States hold a disproportionately large share of the country's domestically owned public debt and would resist policies that would disrupt the bond market.

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