

APOLLO

The US fiscal outlook, long-term interest rates, Treasury auctions, and the dollar

Torsten Slok, Rajvi Shah, and Shruti Galwankar
tslok@apollo.com

Apollo Global Management

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Unless otherwise noted, information as of June 2025.

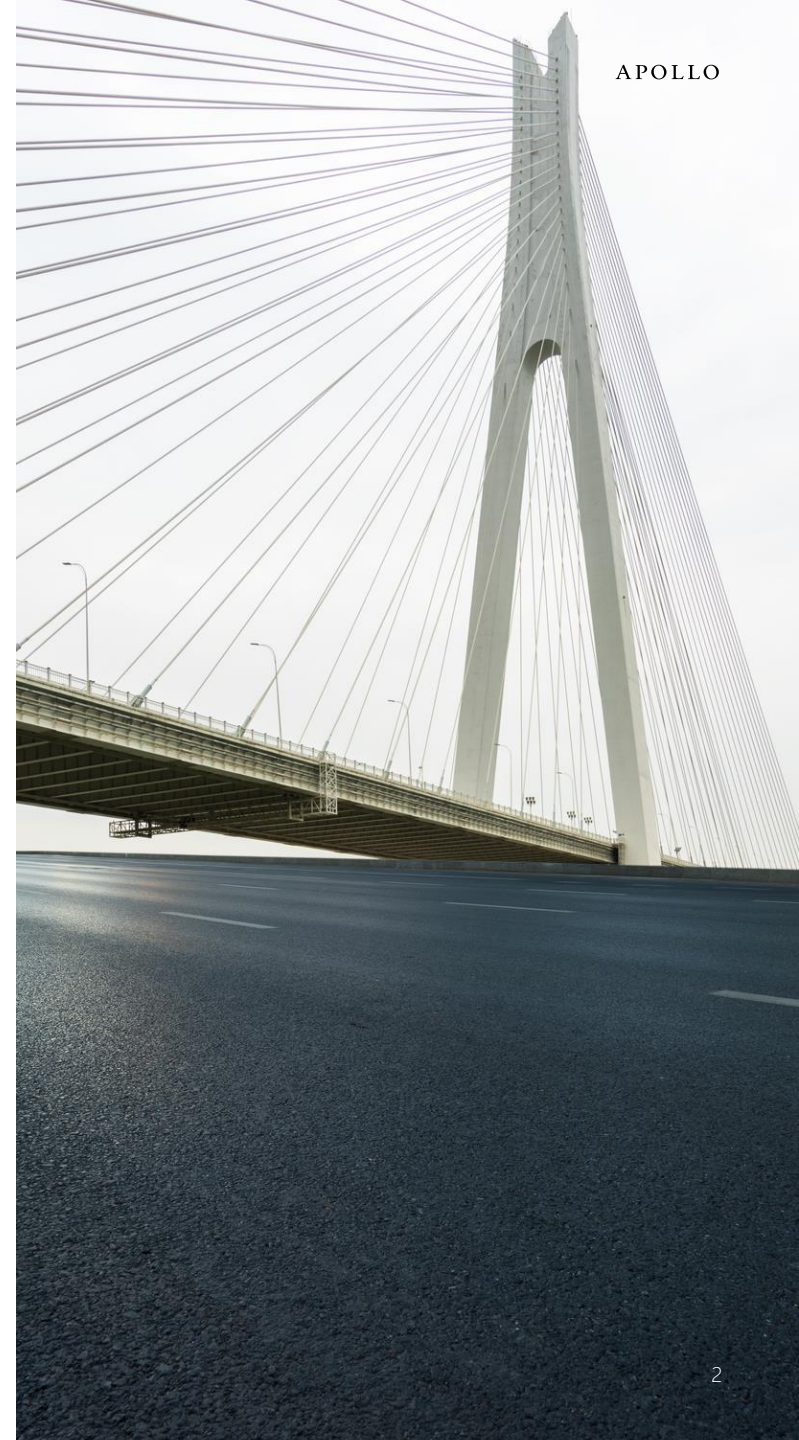
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US fiscal policy is on an unsustainable path. How could this become an issue for markets?

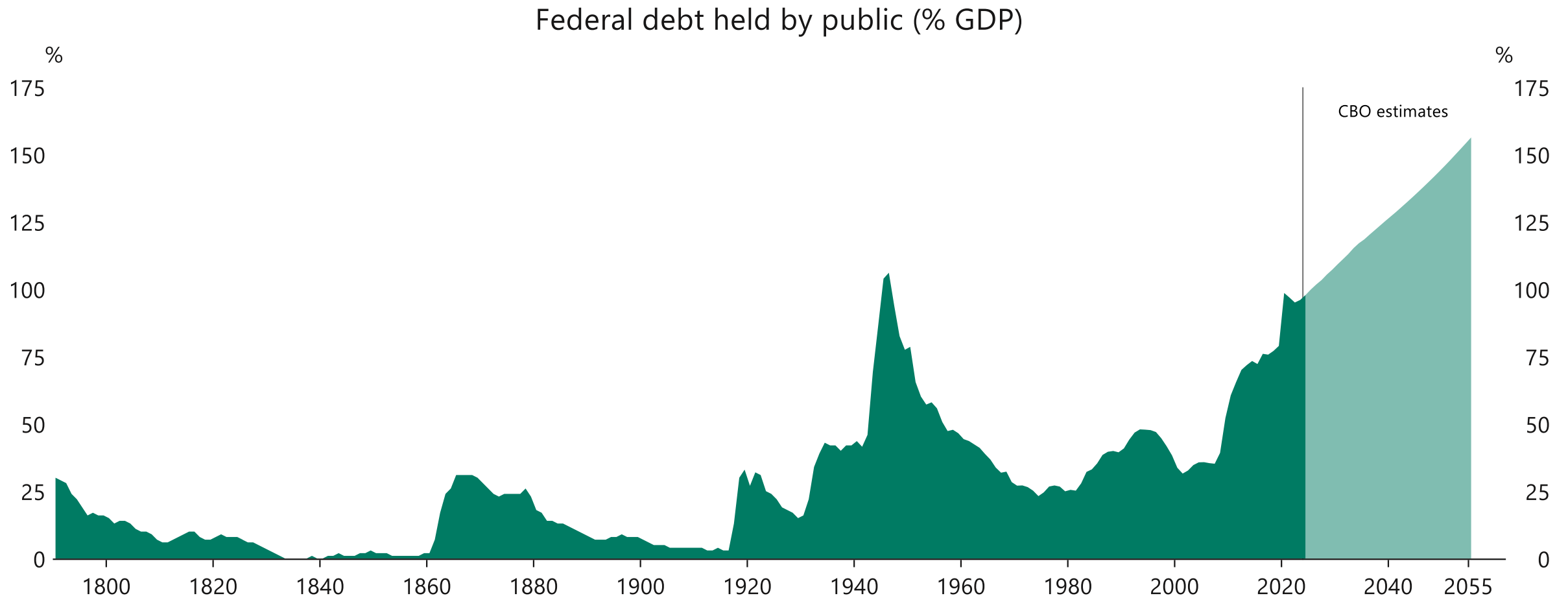
- 1. Treasury auctions:** Weakness could appear without warning
- 2. The dollar:** Could decline further if the US economy starts to slow down
- 3. The term premium:** Has been trending higher
Bottom line: So far, so good.

Most likely outcome is gradually higher long-term rates and steepening of the yield curve.

Unlikely we will get a debt crisis spiking yields and sudden decline in the dollar. If yields spike and financial instability emerges, the Fed will do QE.

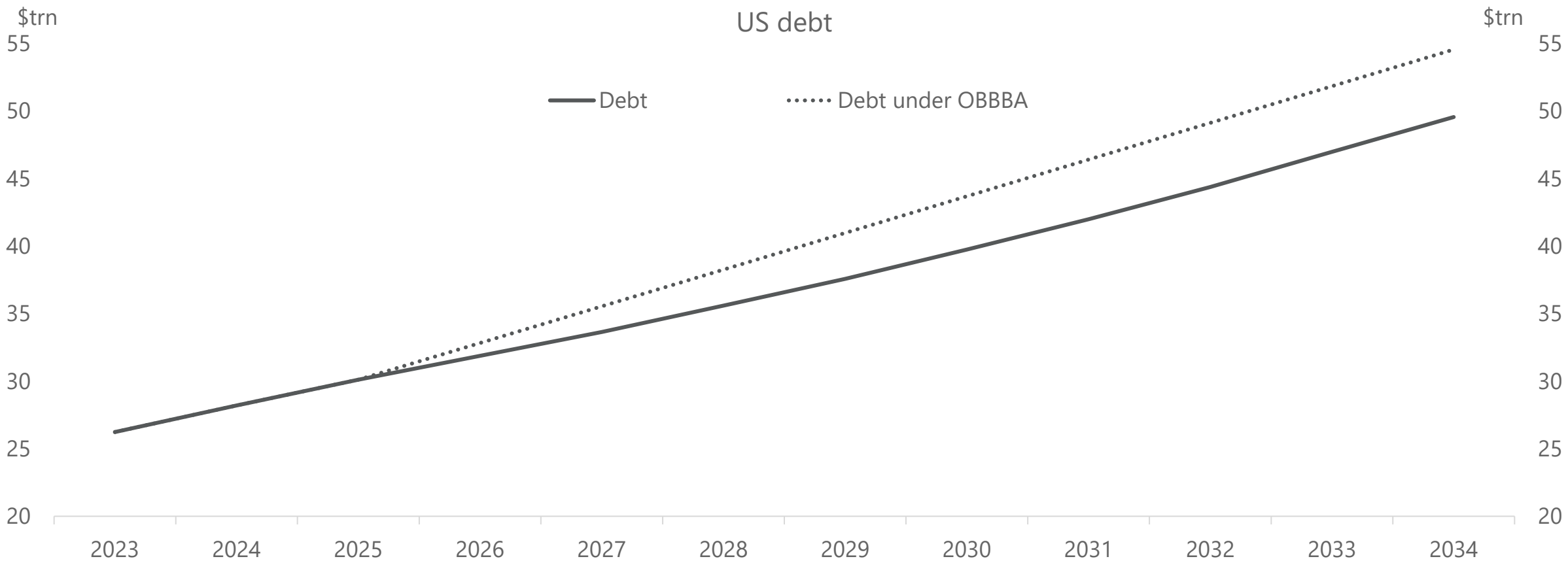
The US fiscal outlook

CBO: Under current policies, government debt outstanding will grow from 100% to 150% of GDP



Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

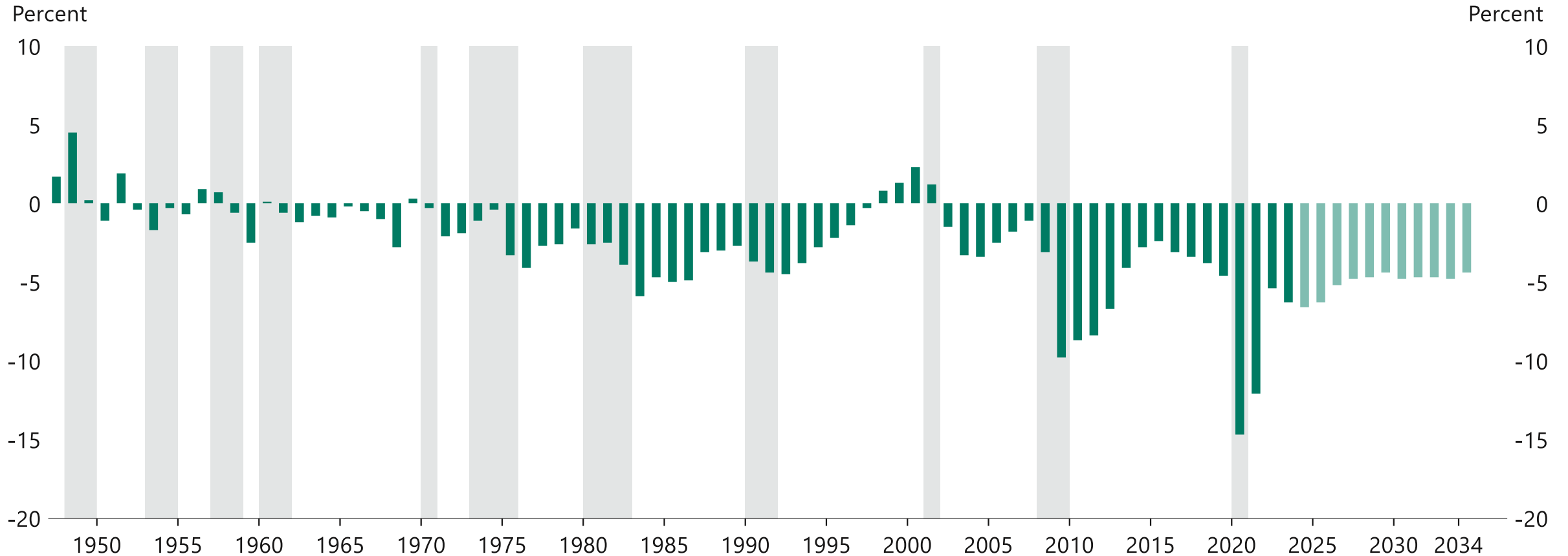
Debt levels expected to rise to under the One Big Beautiful Bill Act



Source: CBO, Committee for responsible budget, Macrobond, Apollo Chief Economist. Note: CfrB estimates a rise in debt by \$5trn under One Big Beautiful Bill Act of 2025 (OBBBA) if its temporary provisions are extended without offsets.

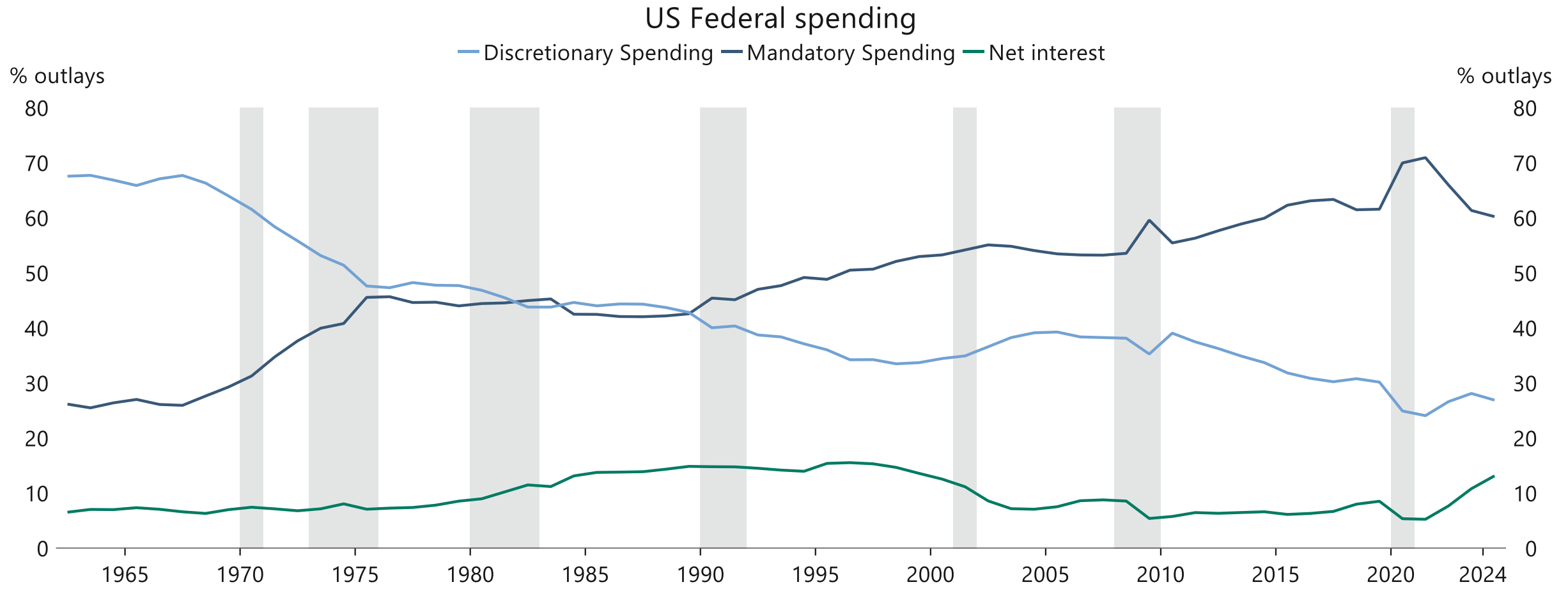
OMB forecasts 5% budget deficit every year for the next 10 years

US: Budget surplus/deficit as a % of GDP



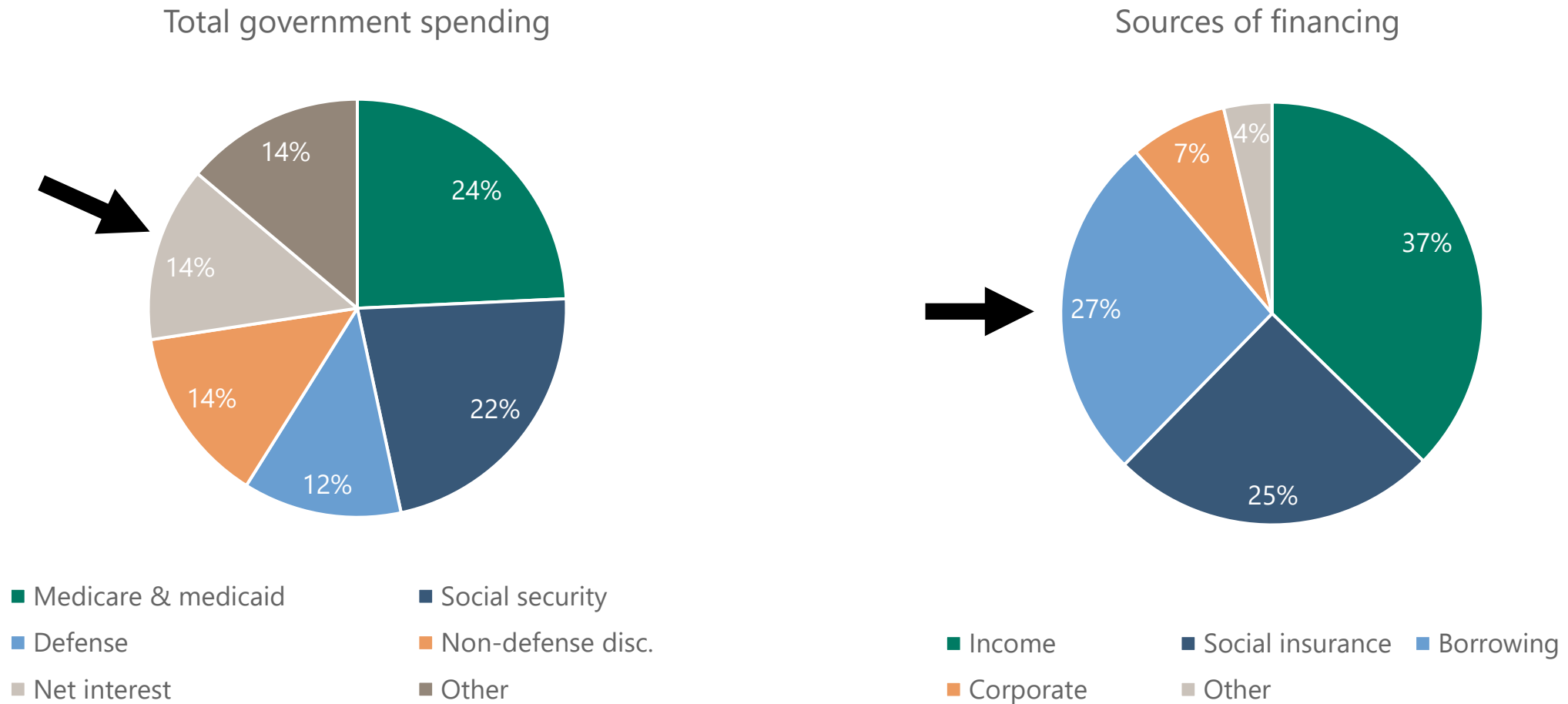
Source: U.S. Office of Management & Budget, Macrobond, Apollo Chief Economist

Discretionary government spending has declined from 70% of total outlays to 30%



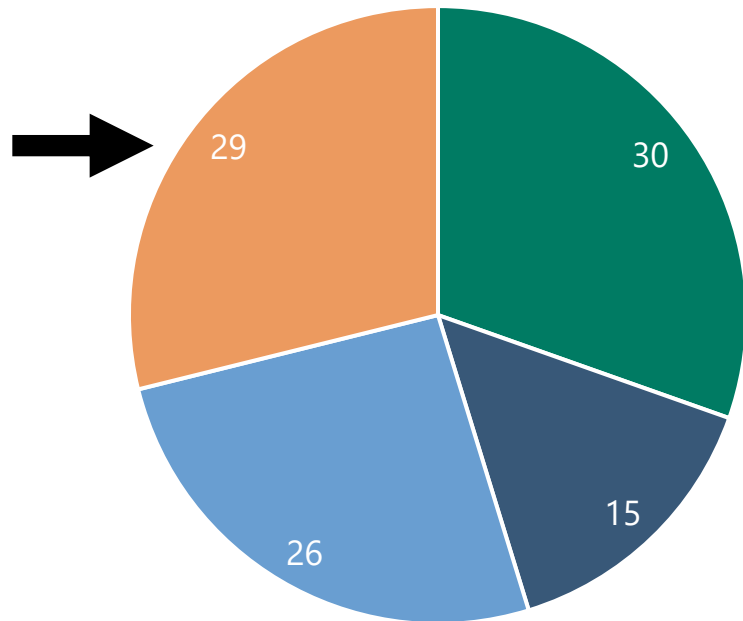
Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

The 2025 federal budget: Net interest payments make up 14% of total government spending



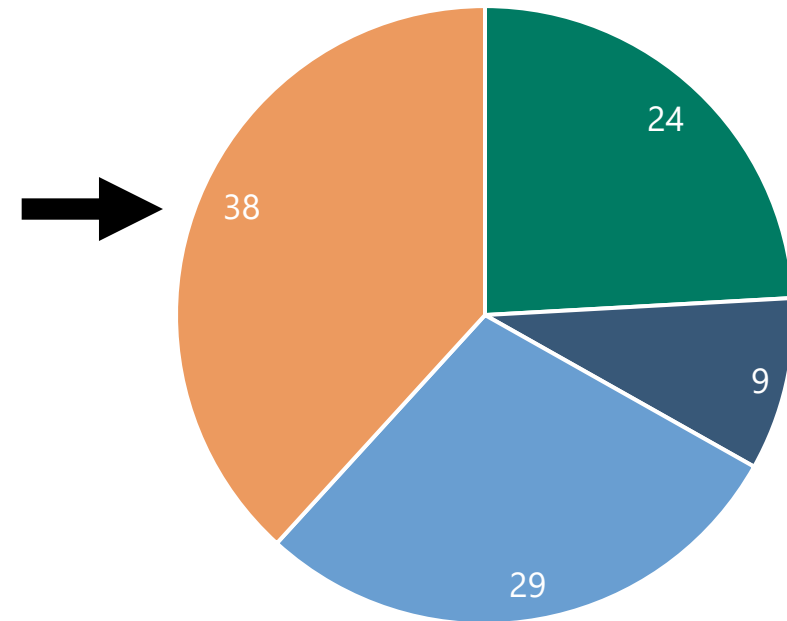
CBO: Non-interest outlays distribution, healthcare more and more important

Total non-interest outlays, 2025



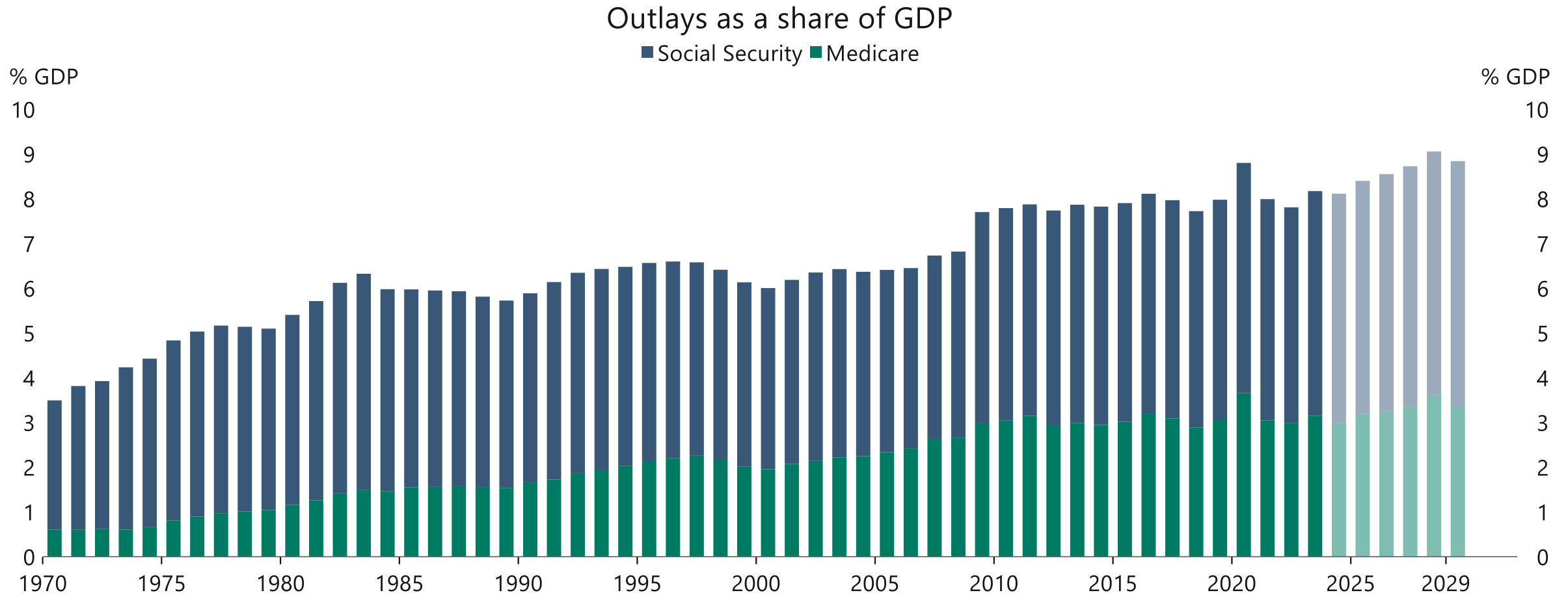
- Discretionary
- Social Security
- Other mandatory
- Major health care programs

Total non-interest outlays, 2055



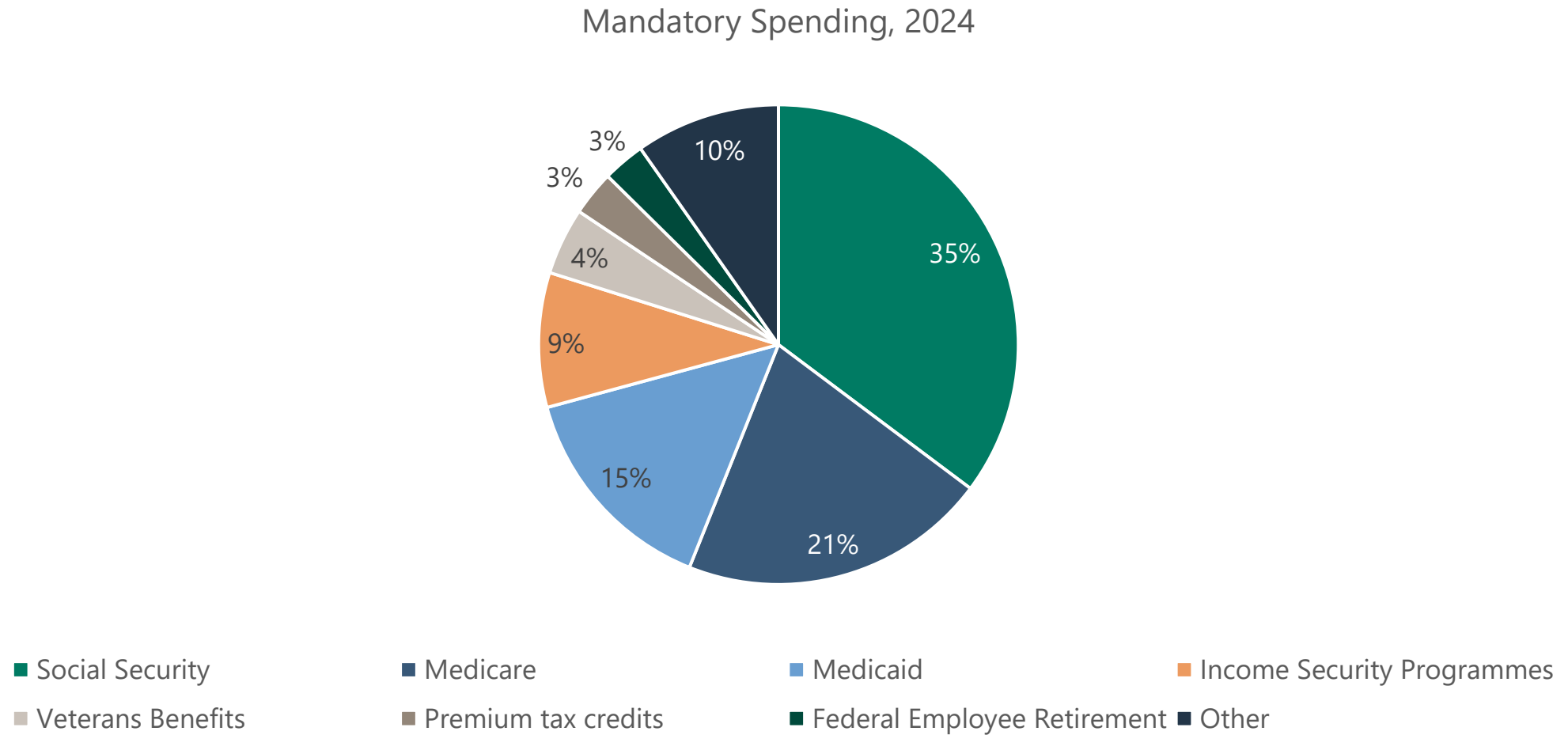
- Discretionary
- Social Security
- Other mandatory
- Major health care programs

Budget pressures from an ageing population: Spending on Social Security and Medicare rising to 9% of GDP

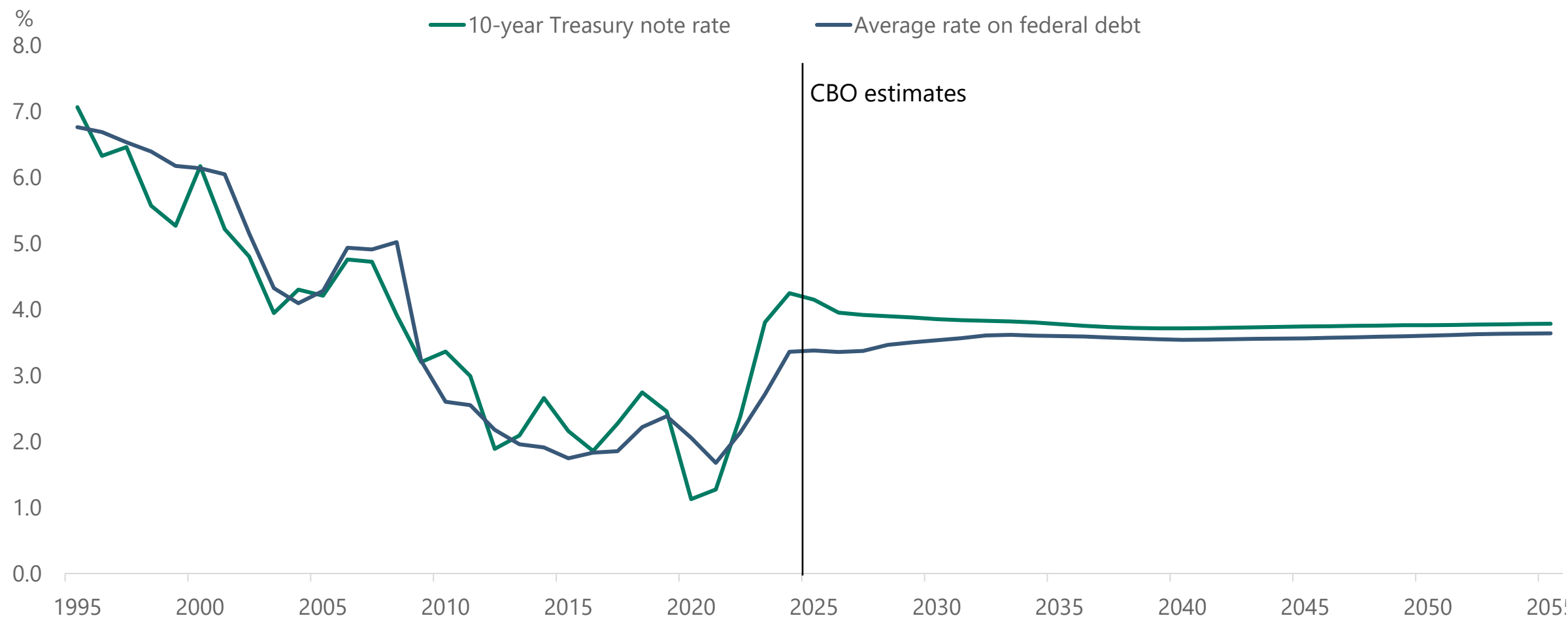


Source: U.S. Office of Management & Budget, Macrobond, Apollo Chief Economist

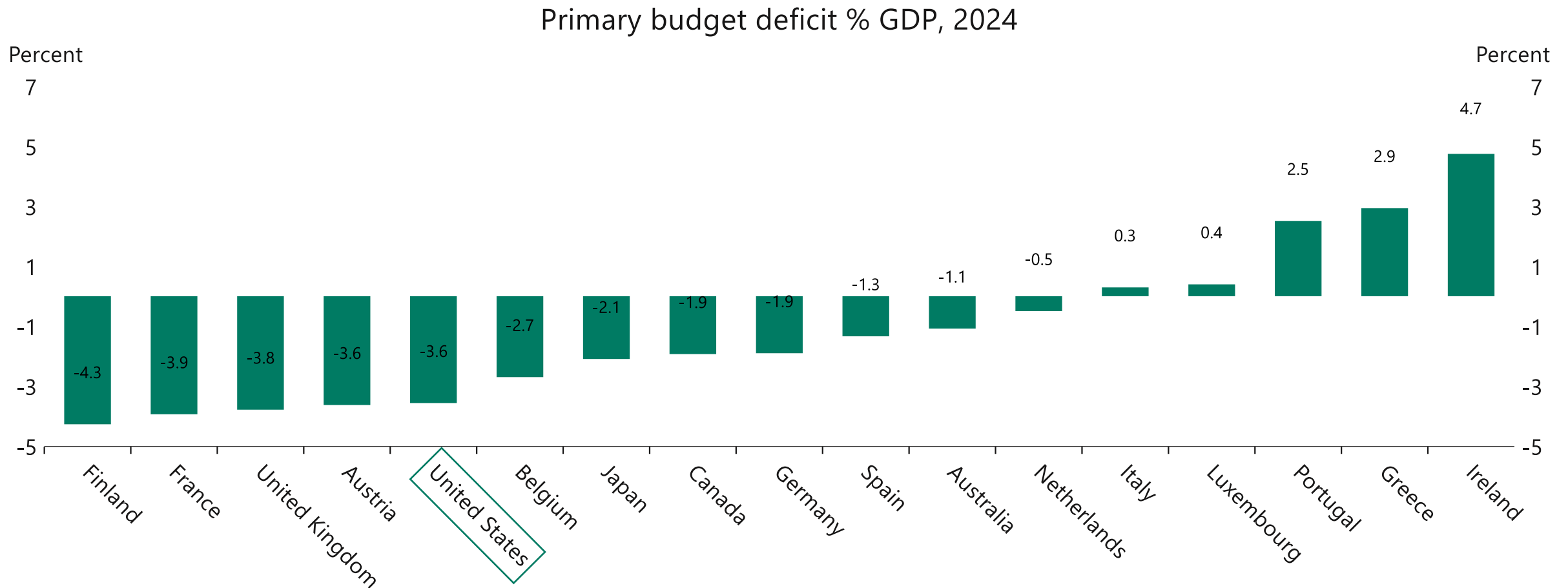
Social security, Medicare and Medicaid make up 70% of mandatory spending



CBO interest rate assumption



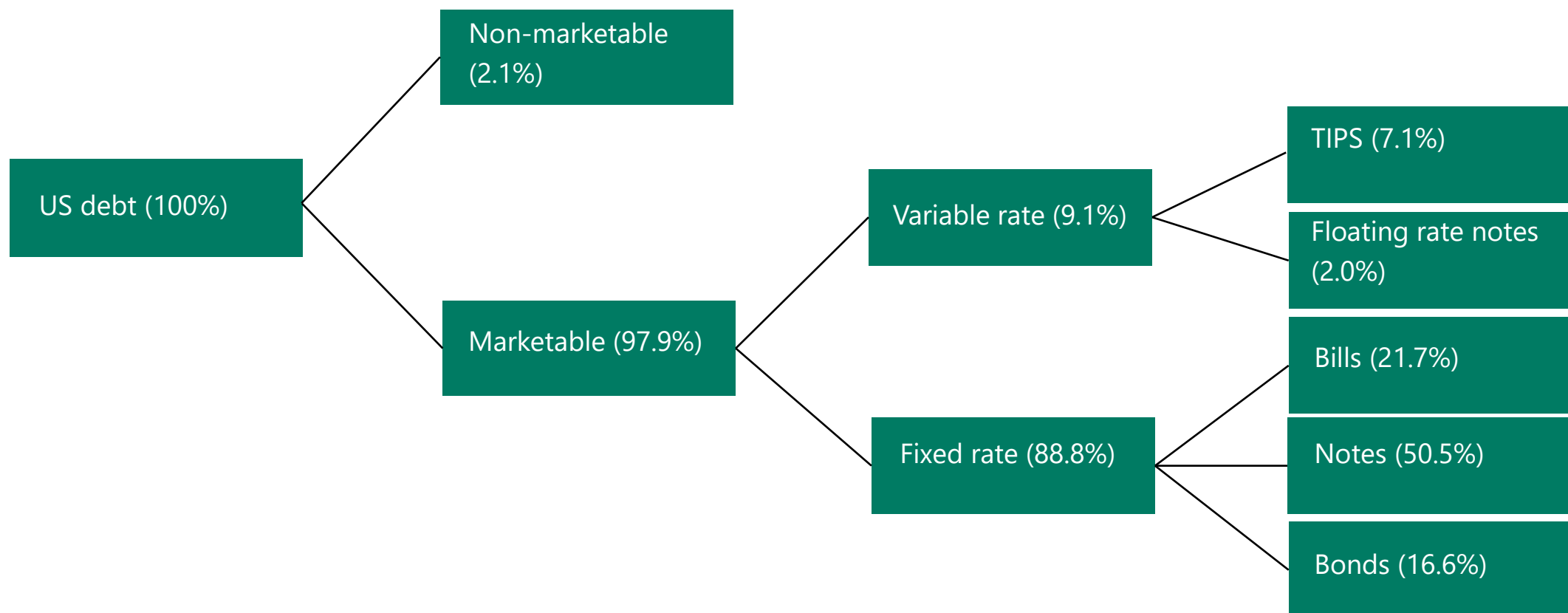
The US has a bigger primary budget deficit than many other countries



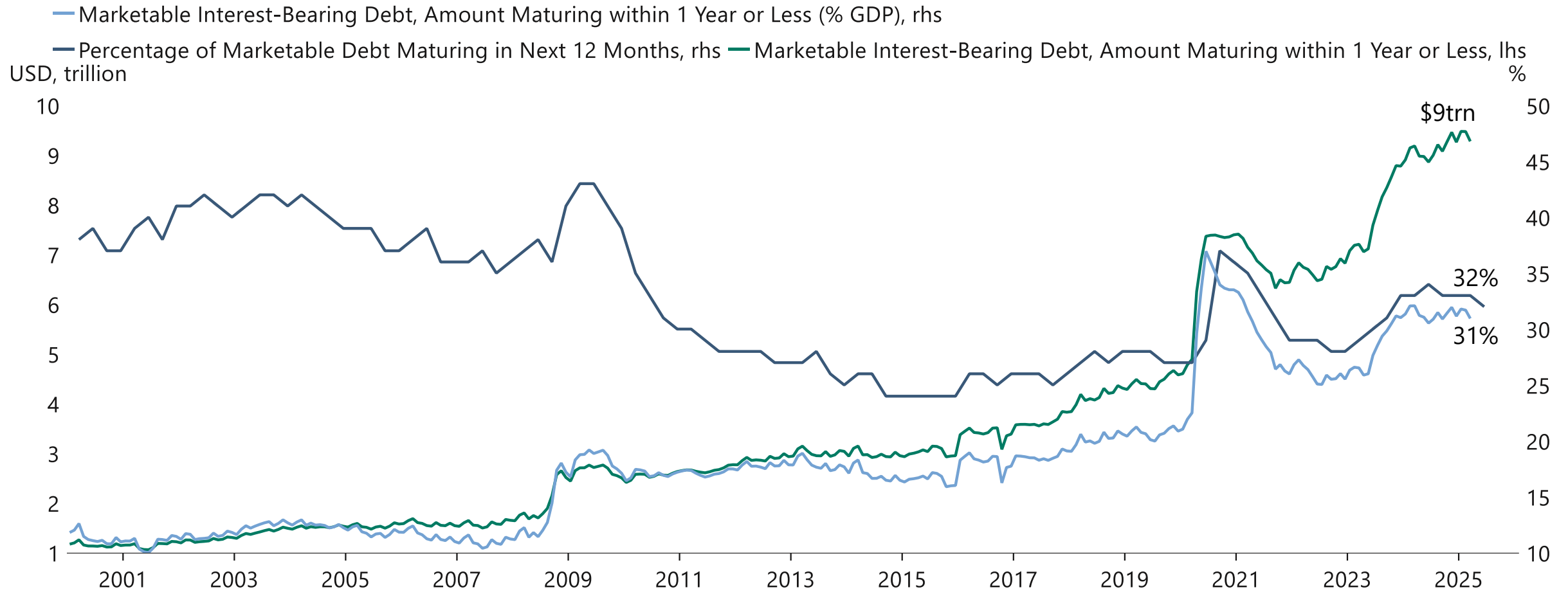
Source: International Monetary Fund (IMF), Macrobond, Apollo Chief Economist. Note: Primary budget deficit = budget deficit excluding interest payments.

The maturity structure of US government debt

89% of US government debt is fixed rate. And 22% is in bills.

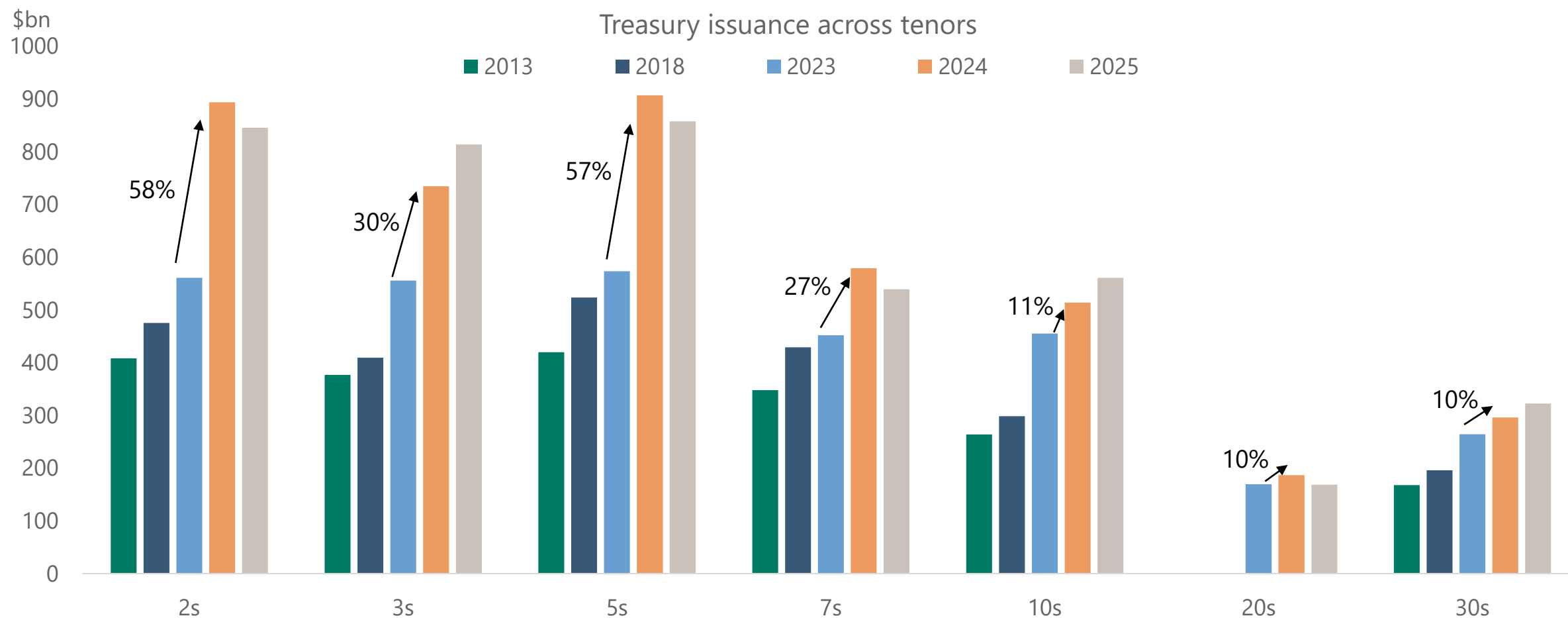


\$9 trillion of government debt will mature over the next year

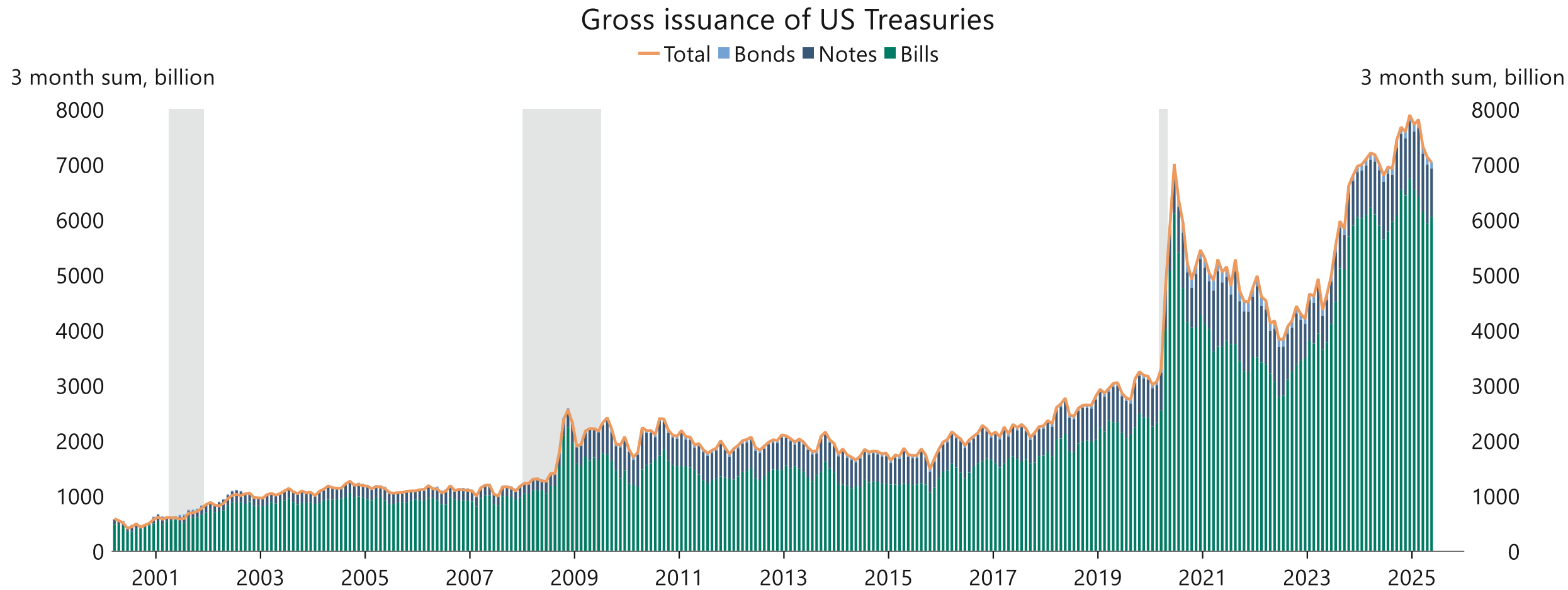


Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Treasury auction sizes have increased on across the yield curve

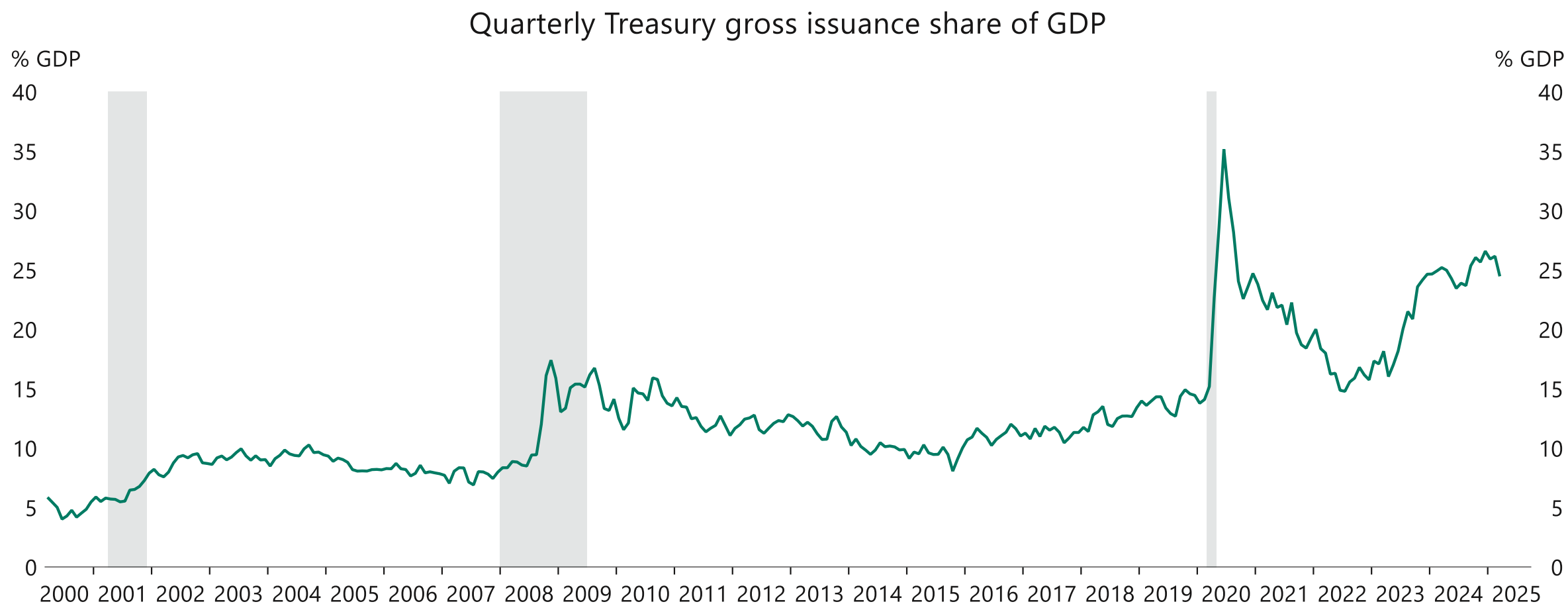


Gross issuance of Treasuries: \$7trn



Source: SIFMA (Securities Industry & Financial Markets Association), Macrobond, Apollo Chief Economist

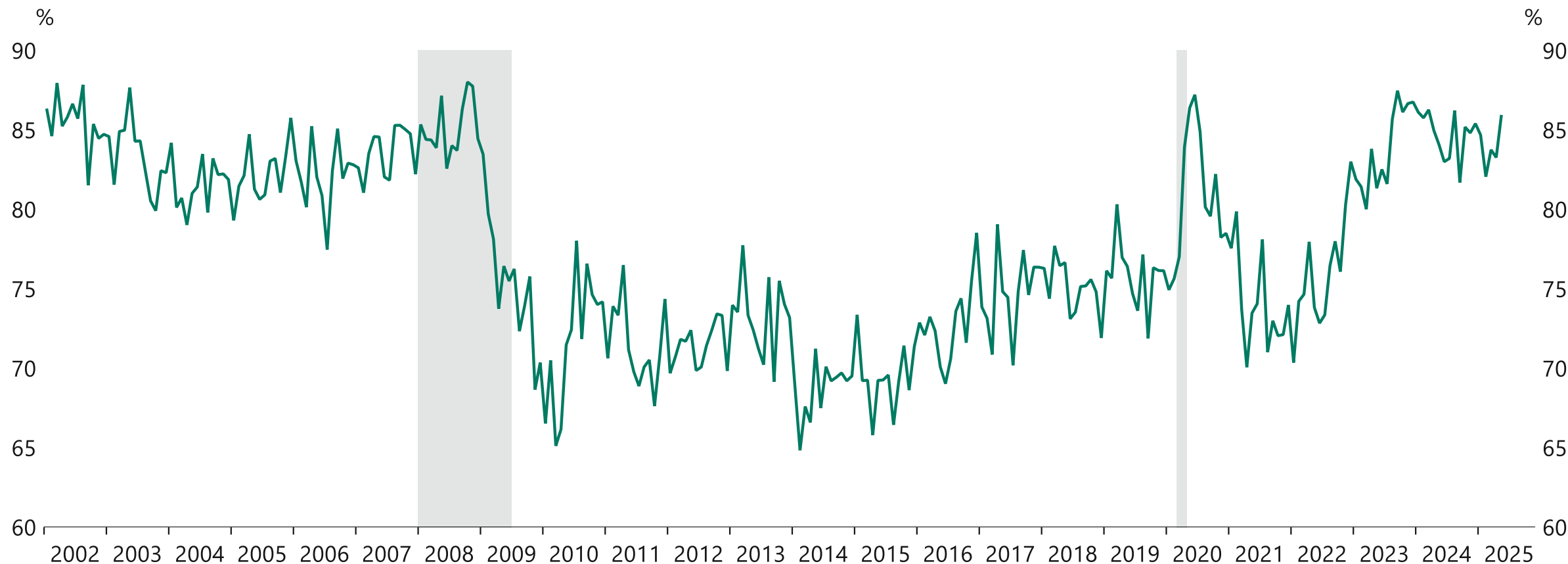
Quarterly gross Treasury issuance as a share of nominal GDP



Source: SIFMA, BEA, Macrobond, Apollo Chief Economist

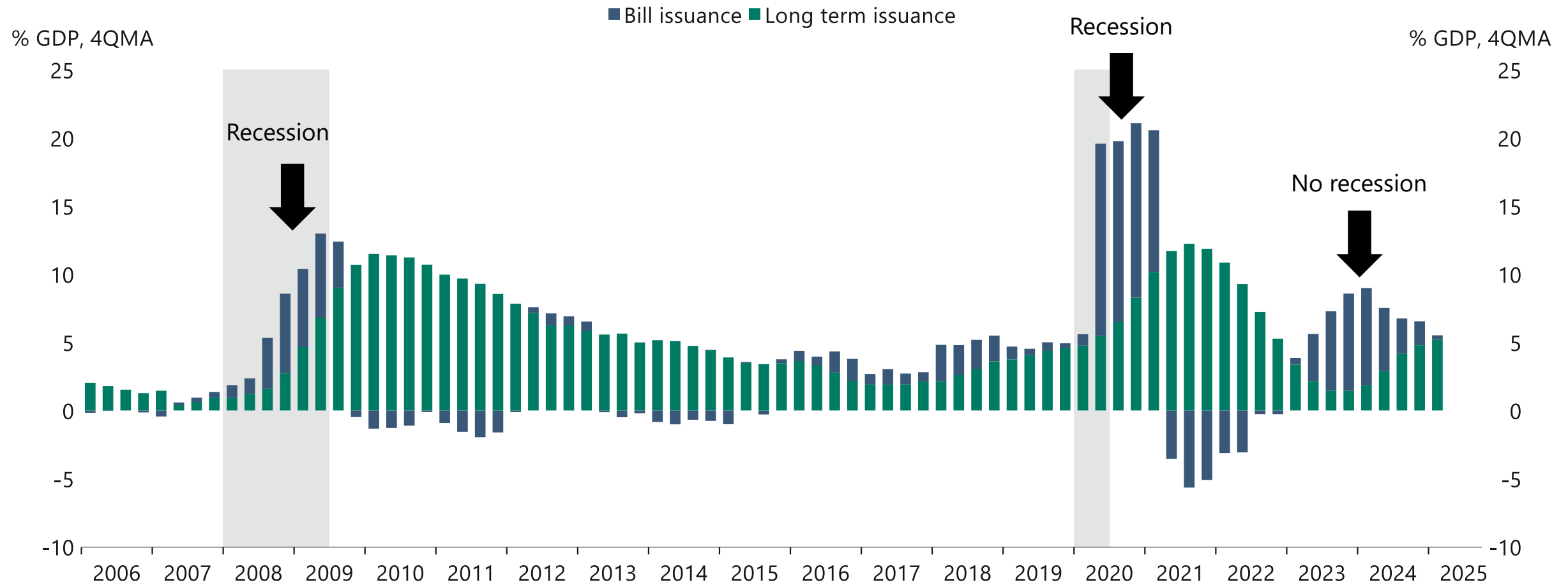
High share of Treasury gross issuance is T-bills

T-Bills share of gross Treasury issuance



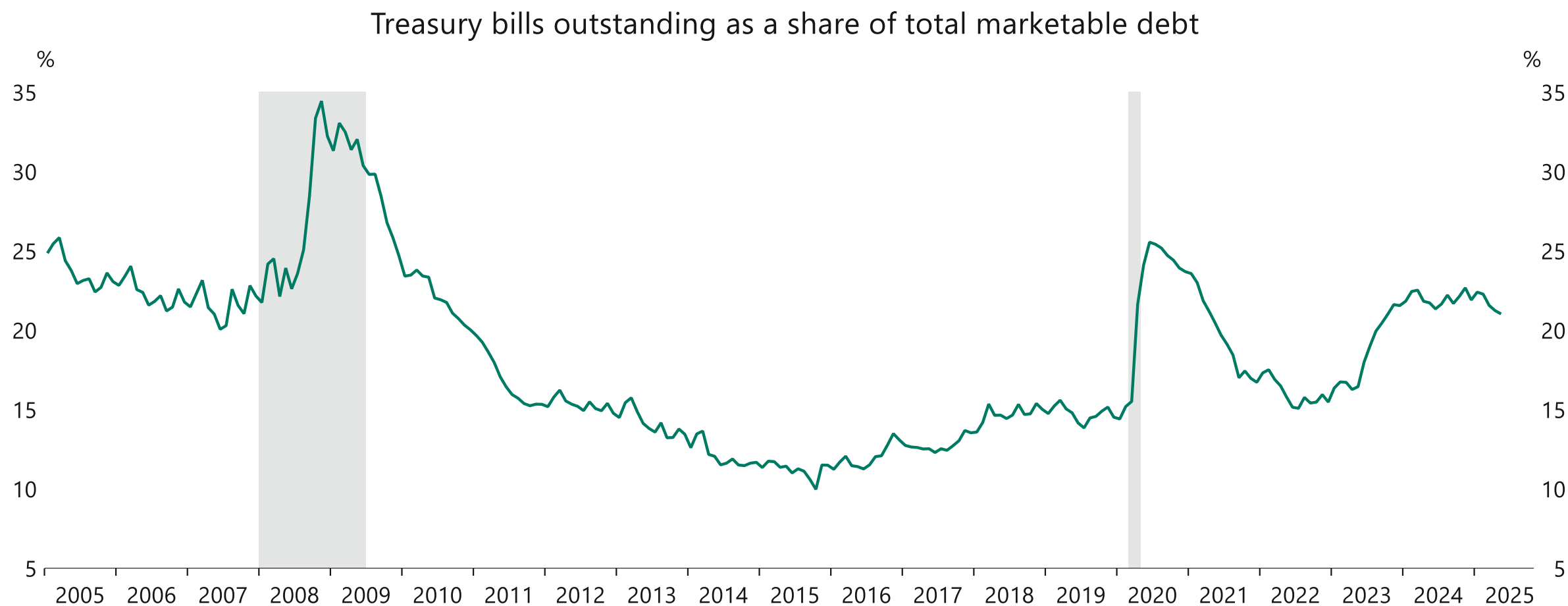
Source: SIFMA (Securities Industry & Financial Markets Association), Macrobond, Apollo Chief Economist

Normally, the Treasury only issues a lot of T-bills during recessions



Source: Federal Reserve, U.S. Bureau of Economic Analysis (BEA), Macrobond, Apollo Chief Economist

Share of T-bills outstanding has increased



Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

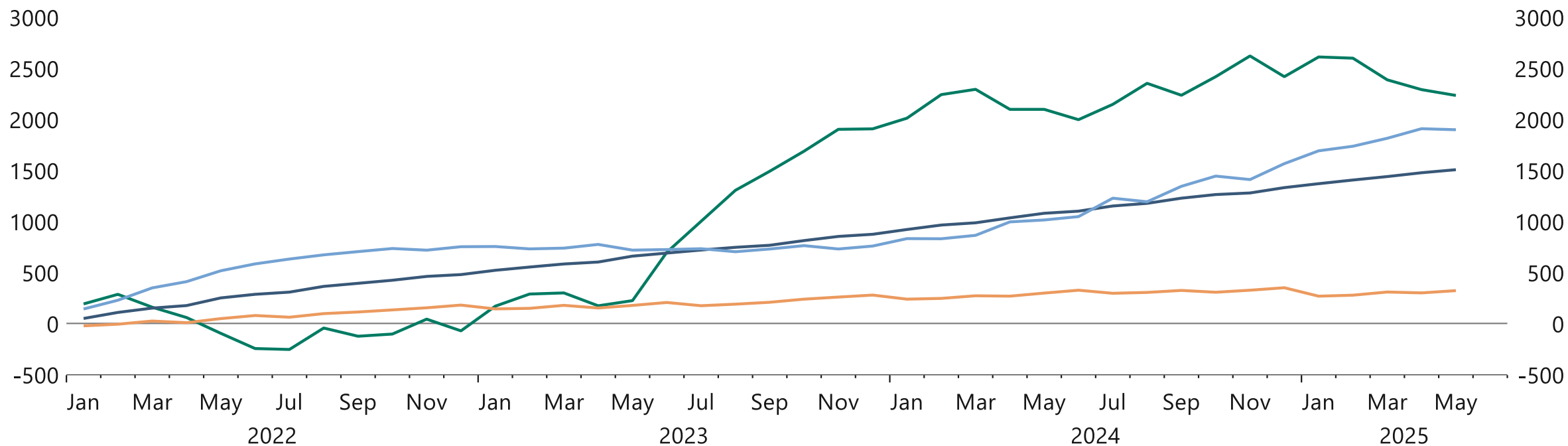
Significant increase in the supply of T-bills

Marketable Treasury securities outstanding

Treasury Inflation-Protected Securities Notes Bonds Bills

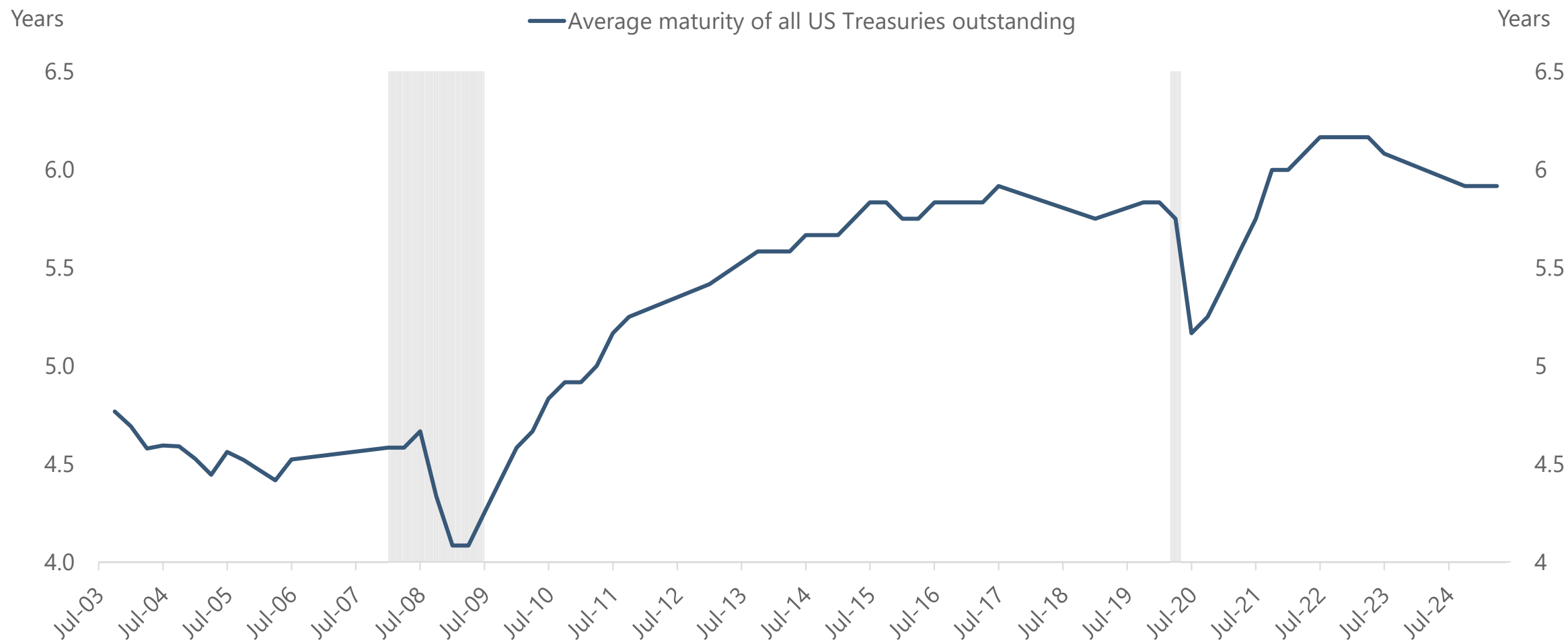
USD,
change since
Jan 22, billion

USD,
change since
Jan 22, billion



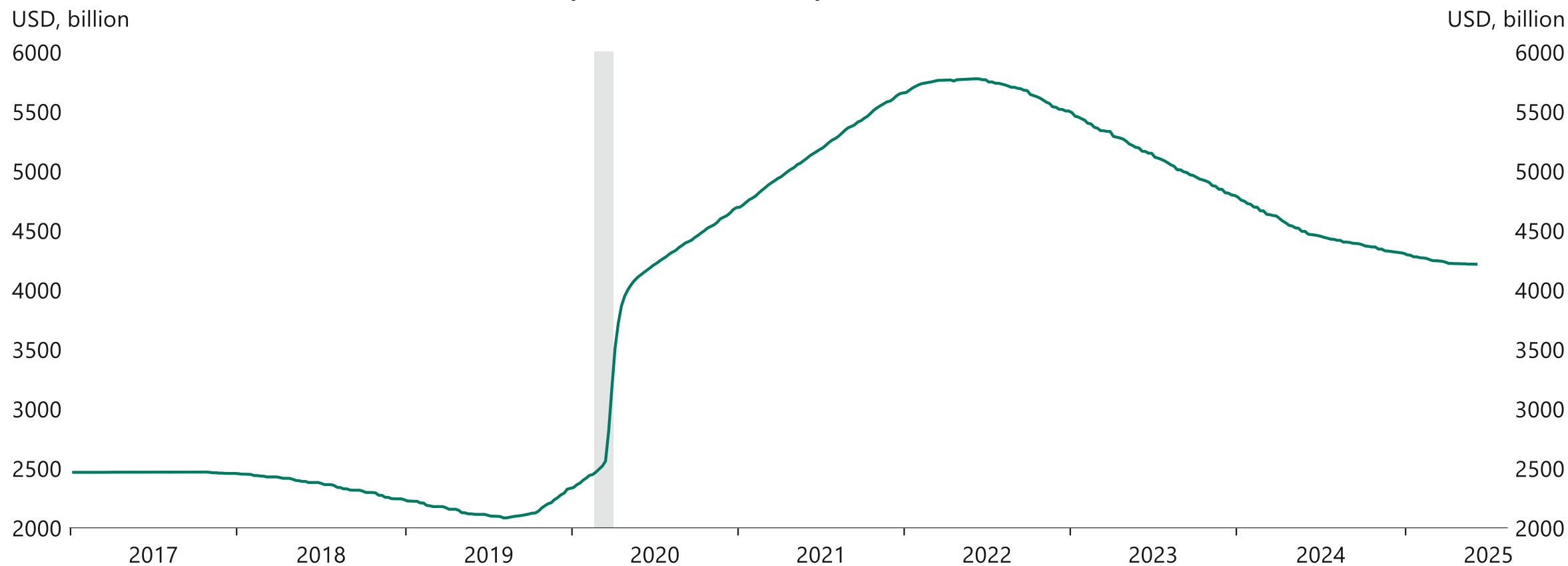
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Weighted average maturity of debt outstanding declining



More Treasury supply coming from QT

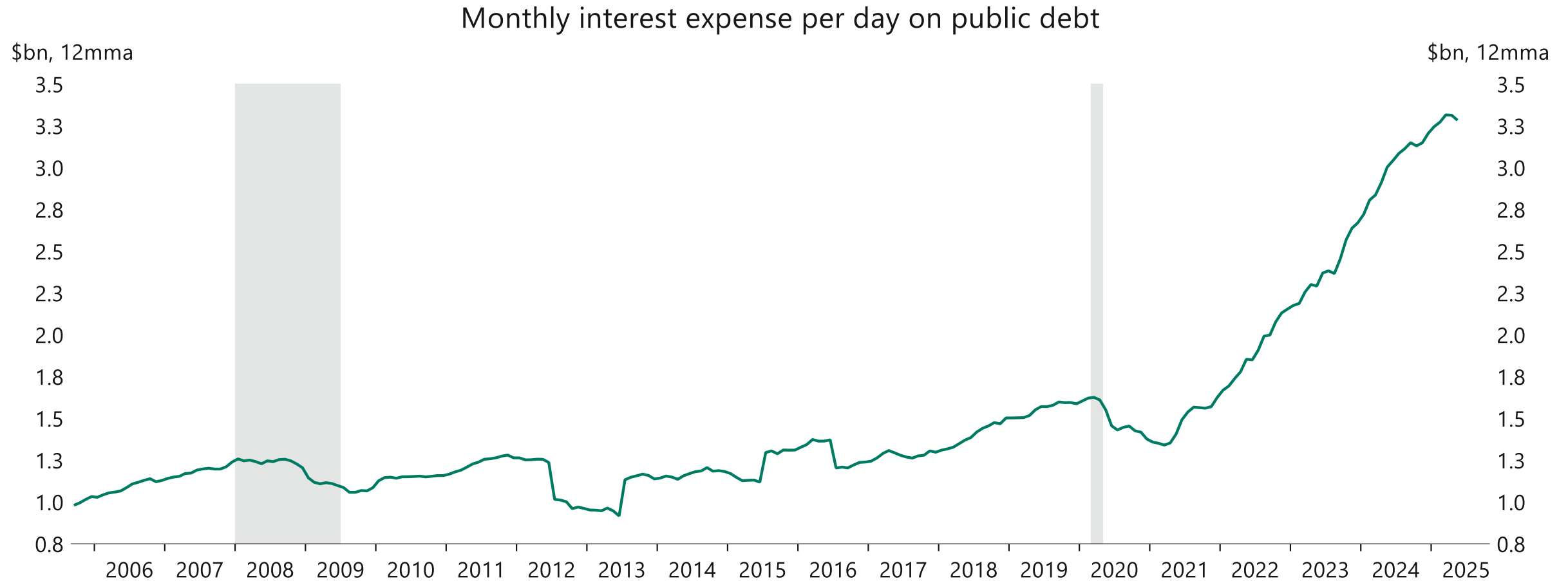
Treasury securities held by the Federal Reserve



Source: Federal Reserve, Macrobond, Apollo Chief Economist

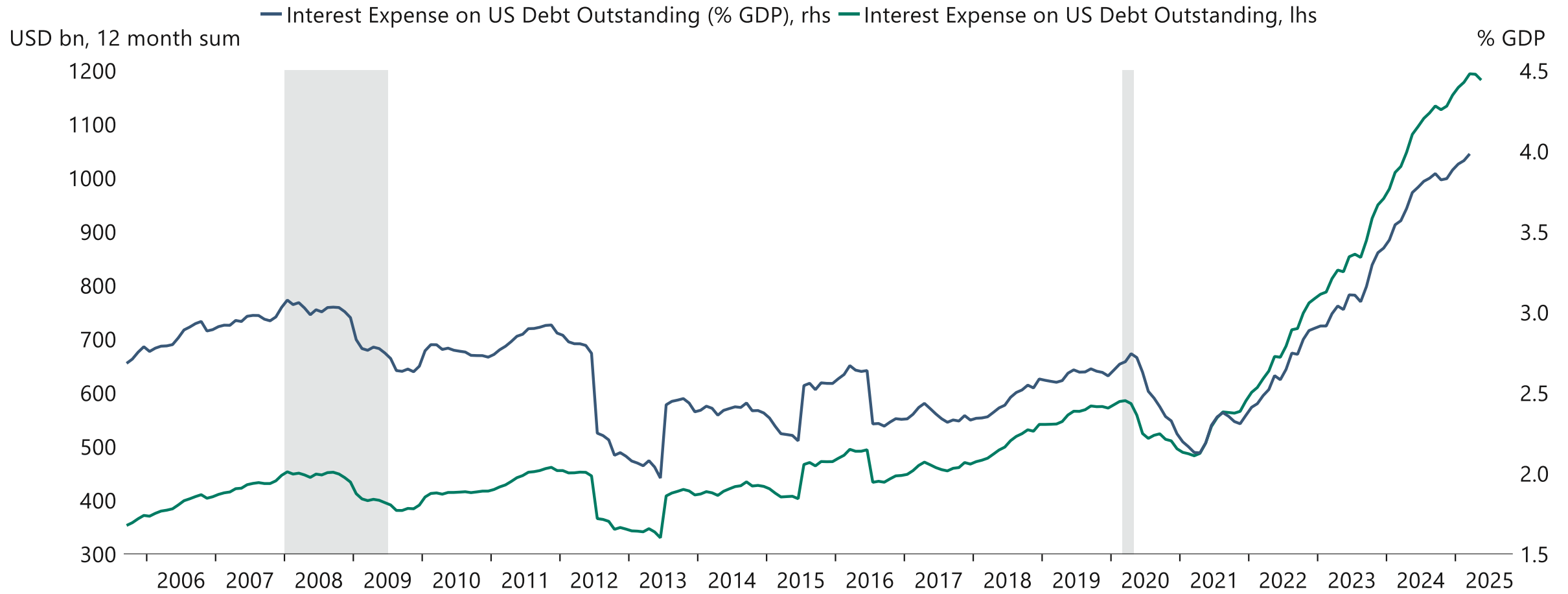
Debt servicing costs rising

Average federal net interest expense per day: \$3.3 billion



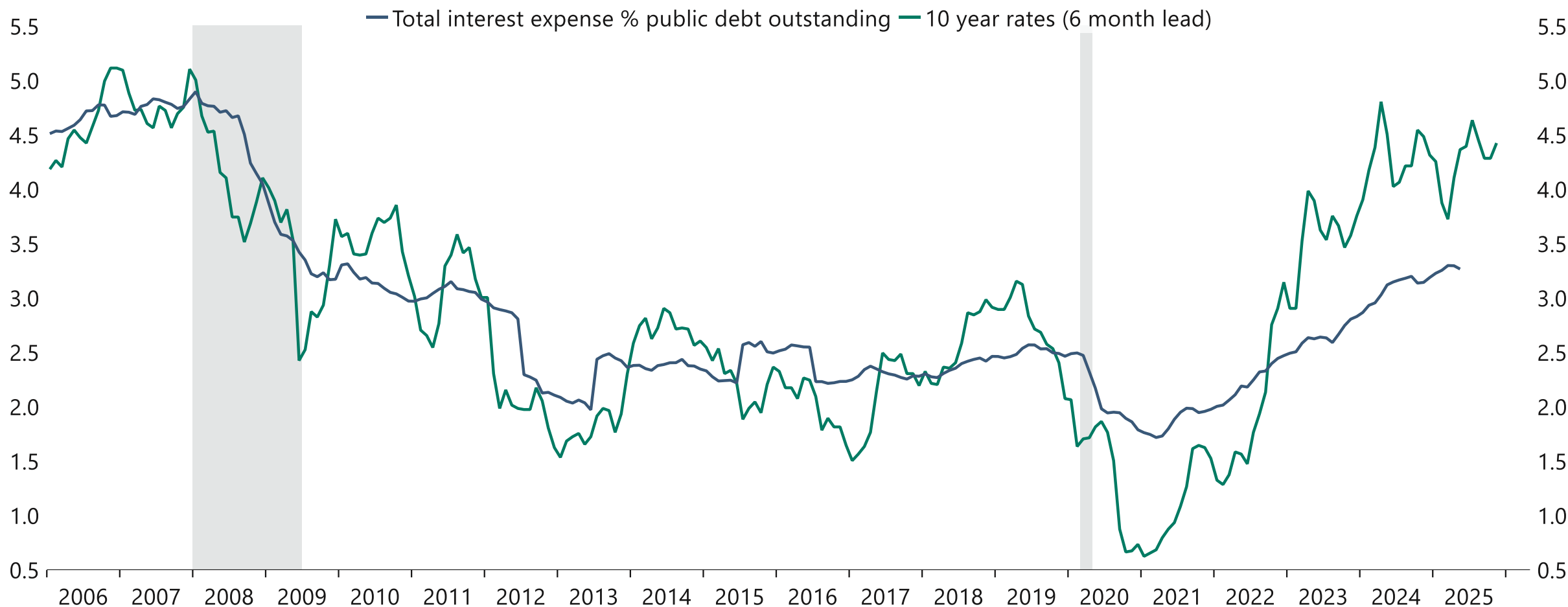
Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

US government paying more than \$1trn annually in debt servicing costs



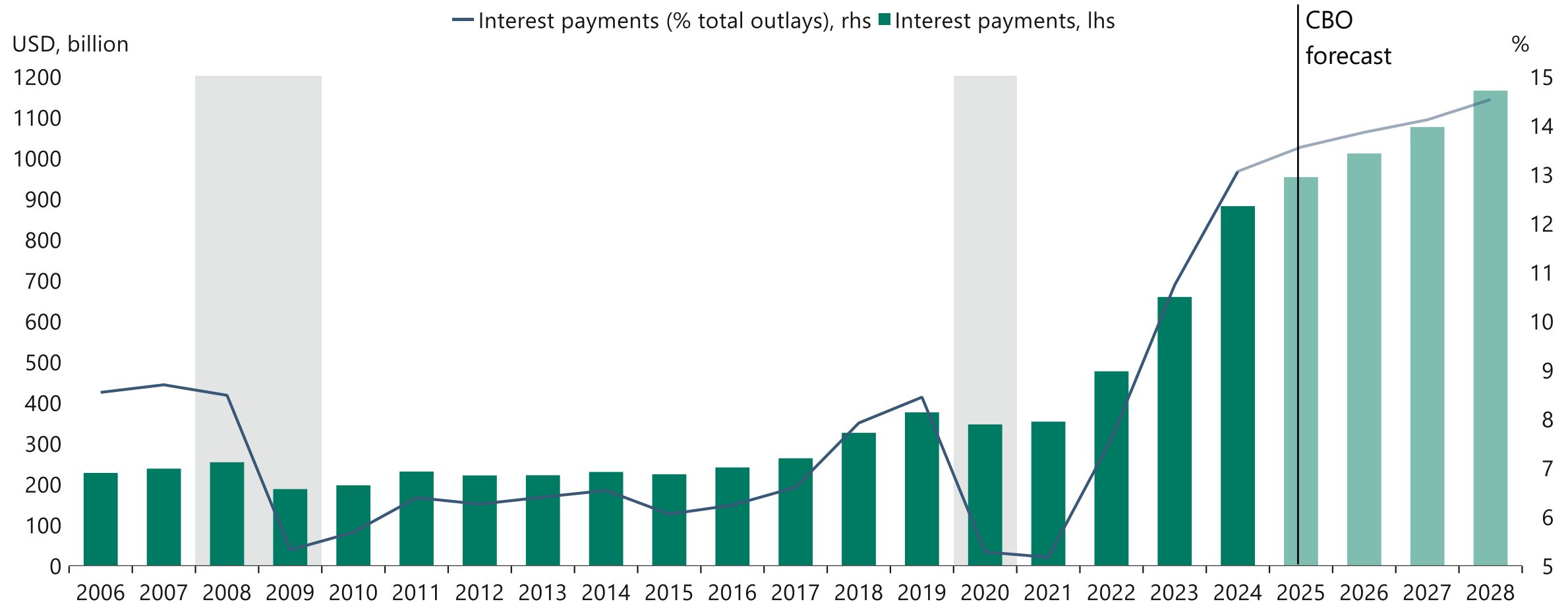
Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

Higher interest rates and higher debt levels putting upward pressure on interest payments



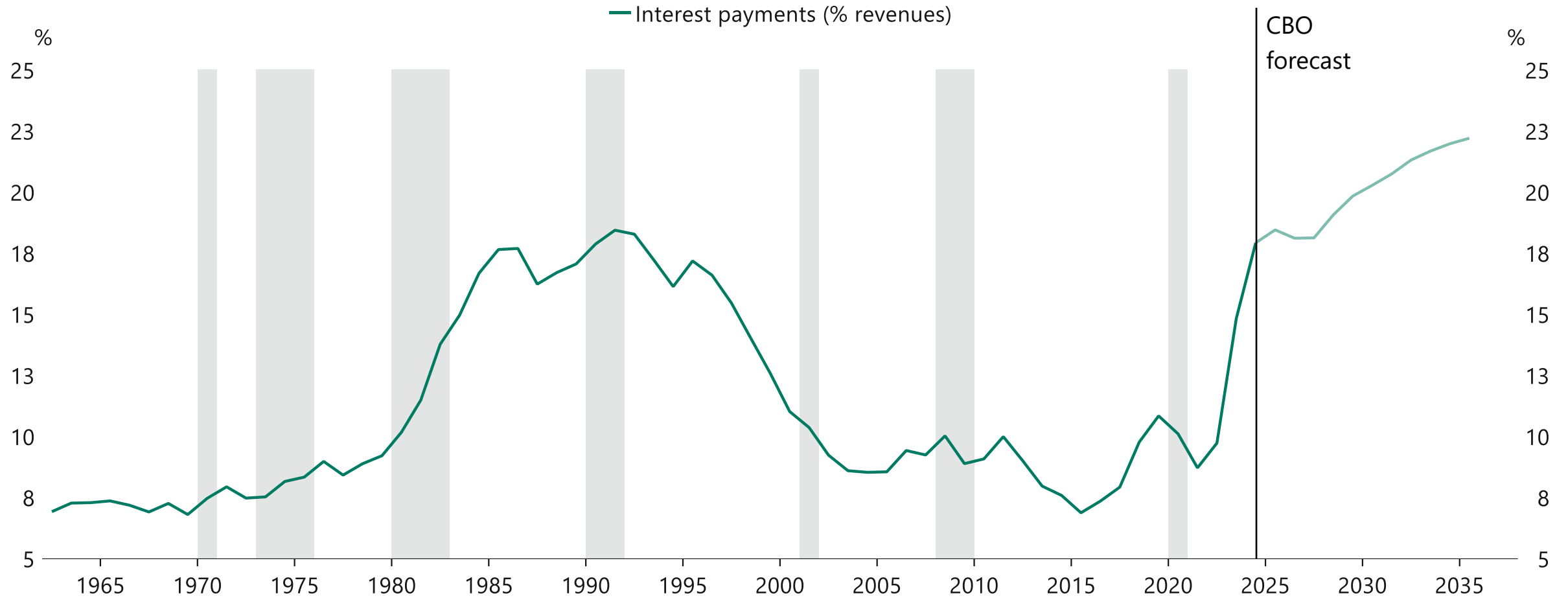
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Net interest payments make up 13% of government spending



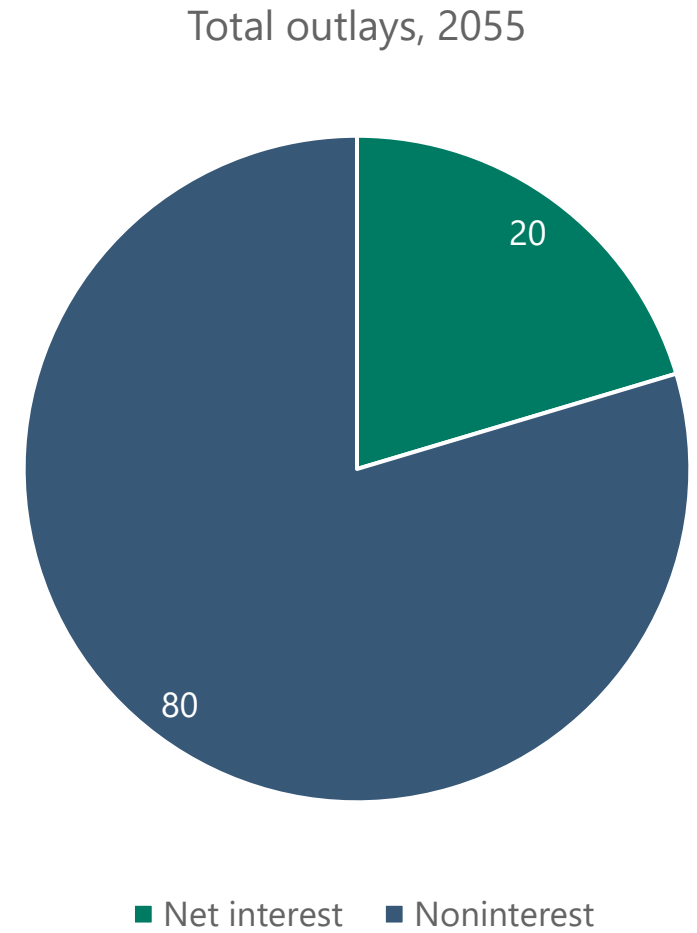
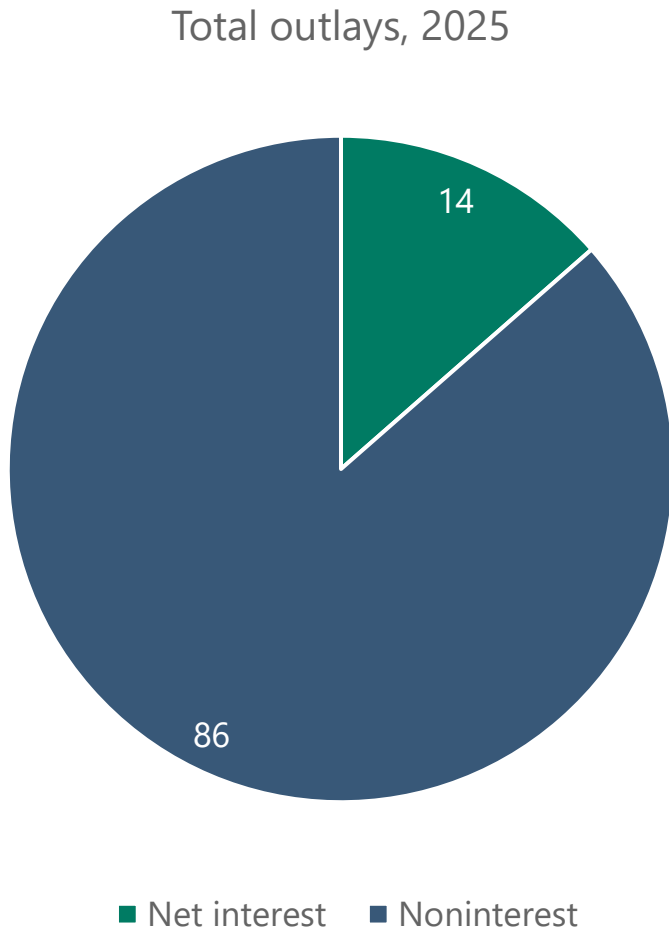
Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

Net interest payments make up 18% of government revenues



Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

CBO: Debt servicing costs will grow as a share of total outlays

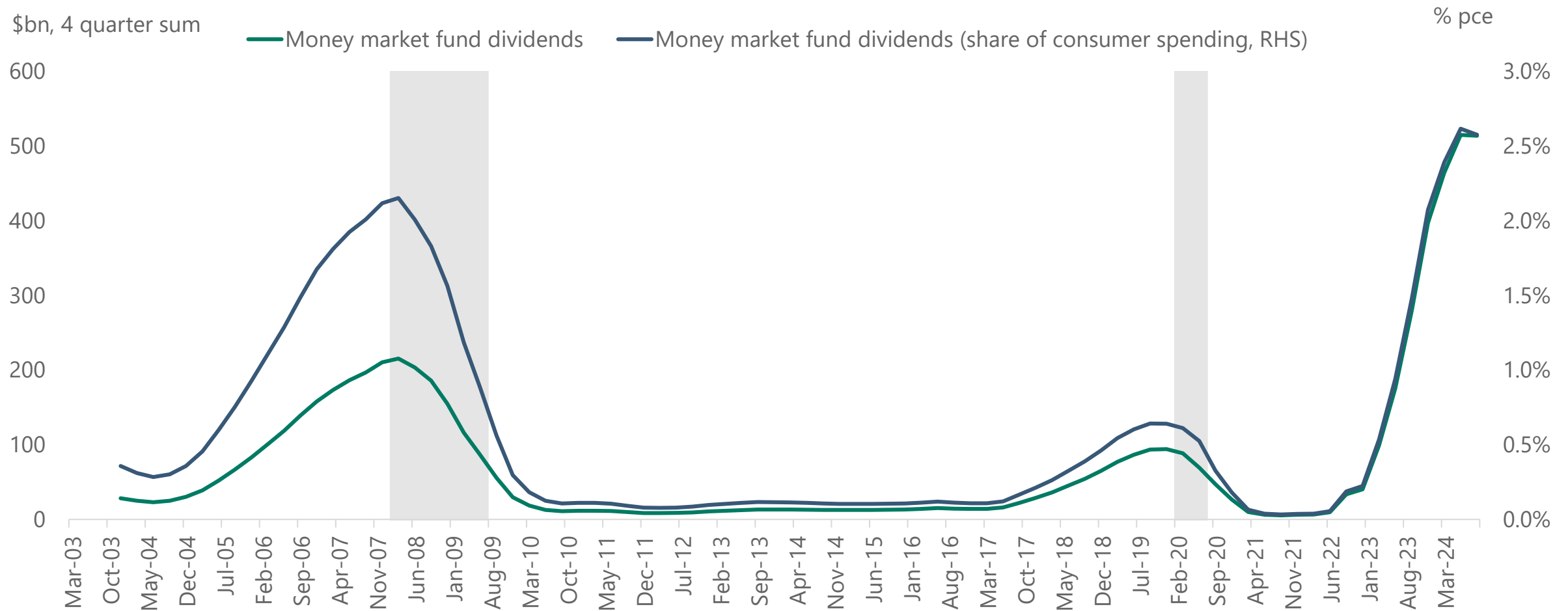


Interest expense on US government debt as a % of S&P 500 market cap



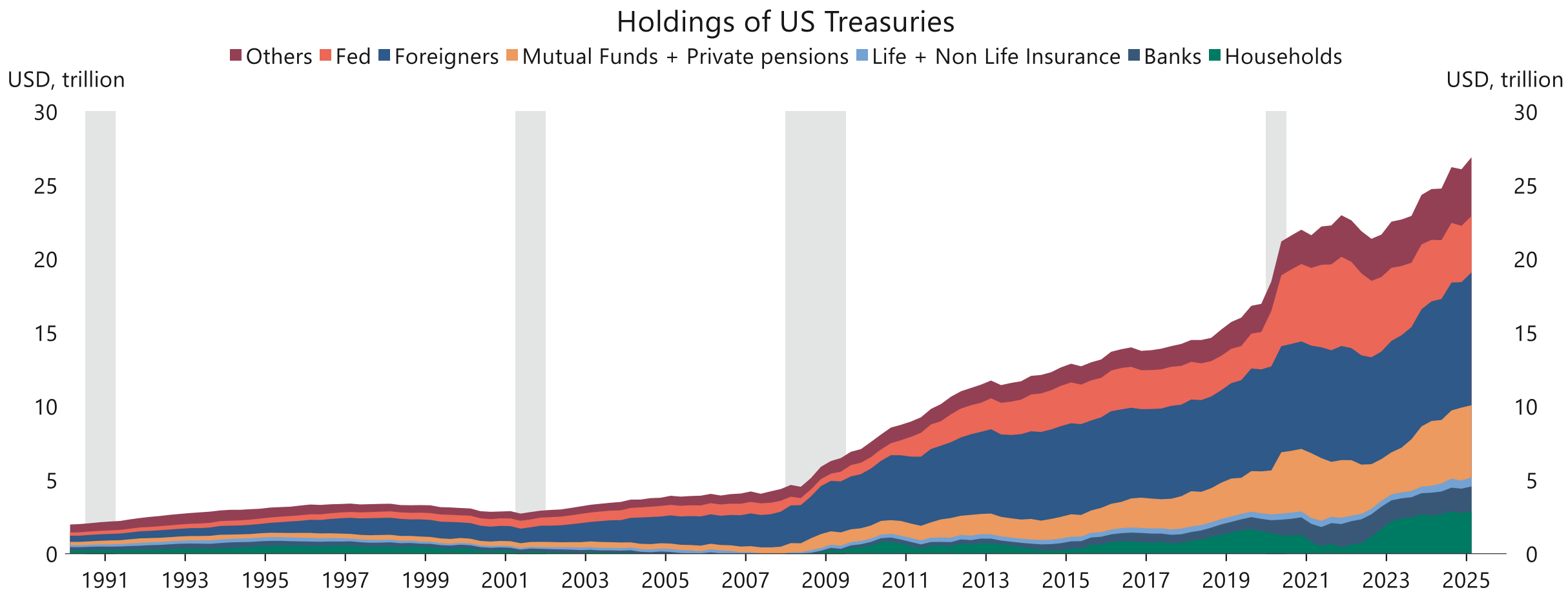
Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

Money market funds currently pay around \$500bn in dividends.
That's 2.5% of annual consumer spending.



Who owns US government debt?

Foreigners own about \$9trn in Treasuries, about 25% of the total

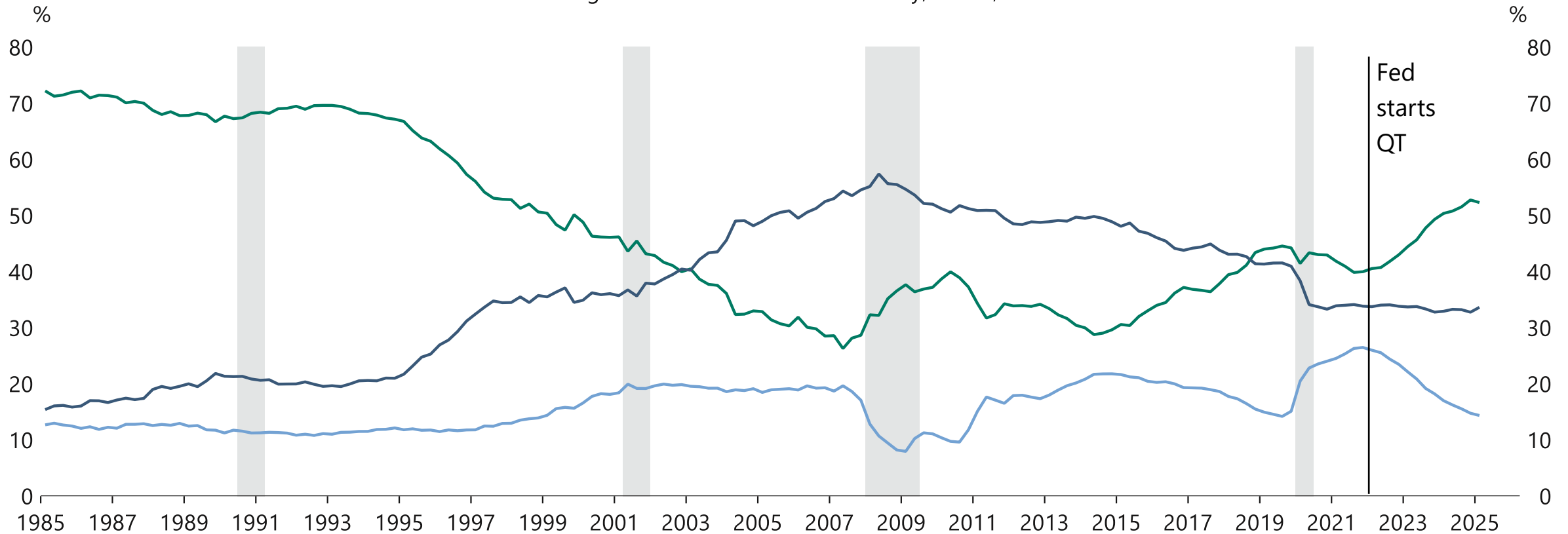


Source: Federal Reserve, Macrobond, Apollo Chief Economist

Fed selling Treasuries (doing QT). Domestic investors buying Treasuries

Holdings of US Treasuries (% Treasury debt outstanding)

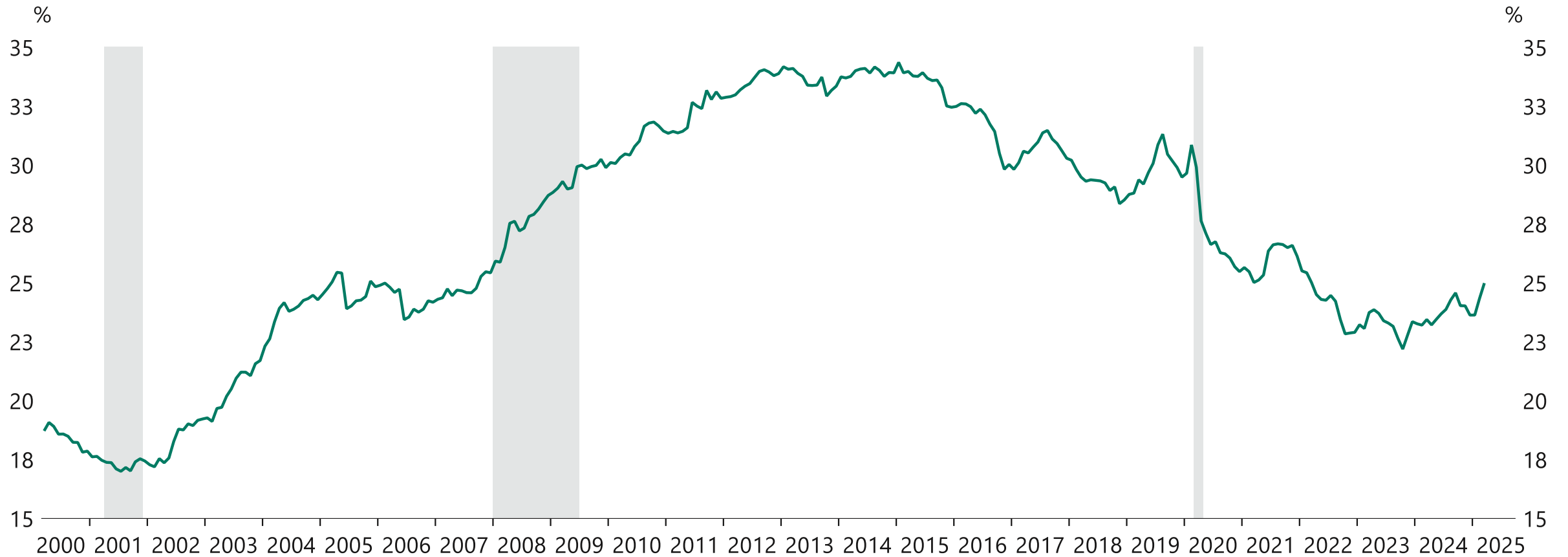
— Fed — Foreigners — US domestic real money, banks, households



Source: Federal Reserve, Macrobond, Apollo Chief Economist

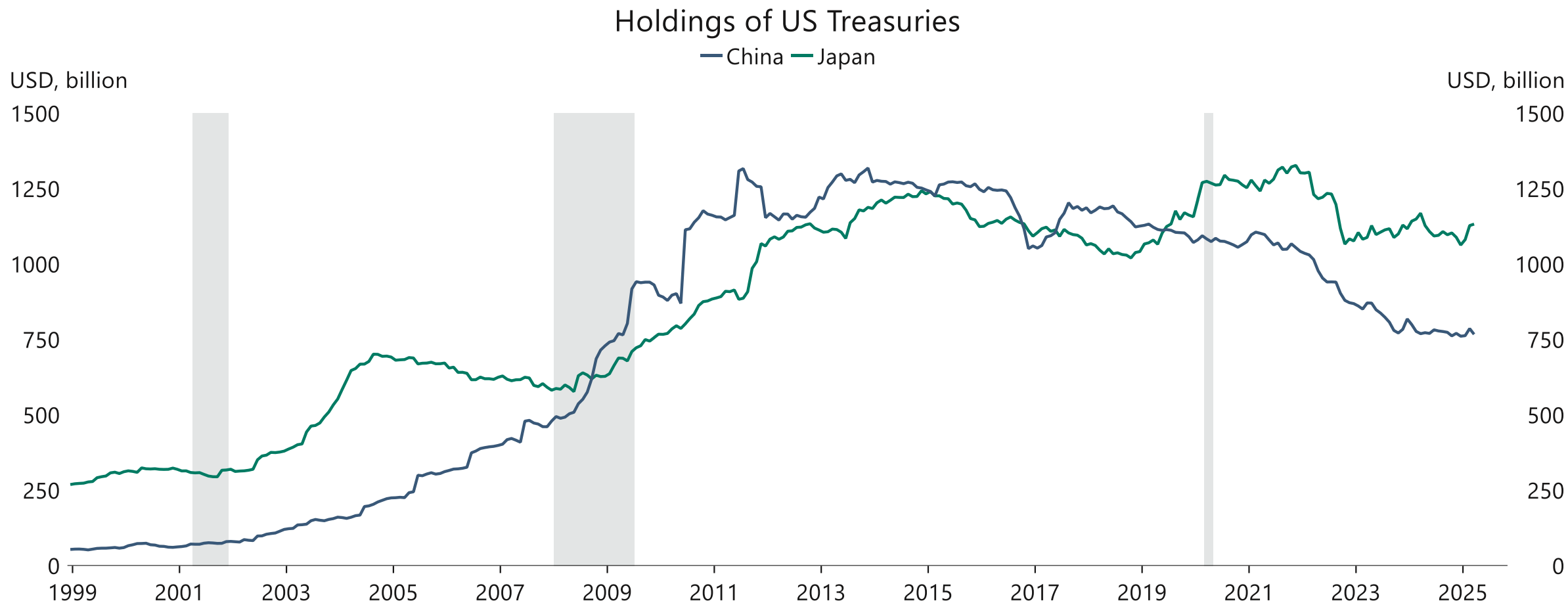
Decline in foreign ownership of US government bonds since 2015

Foreign ownership of total US Treasuries outstanding



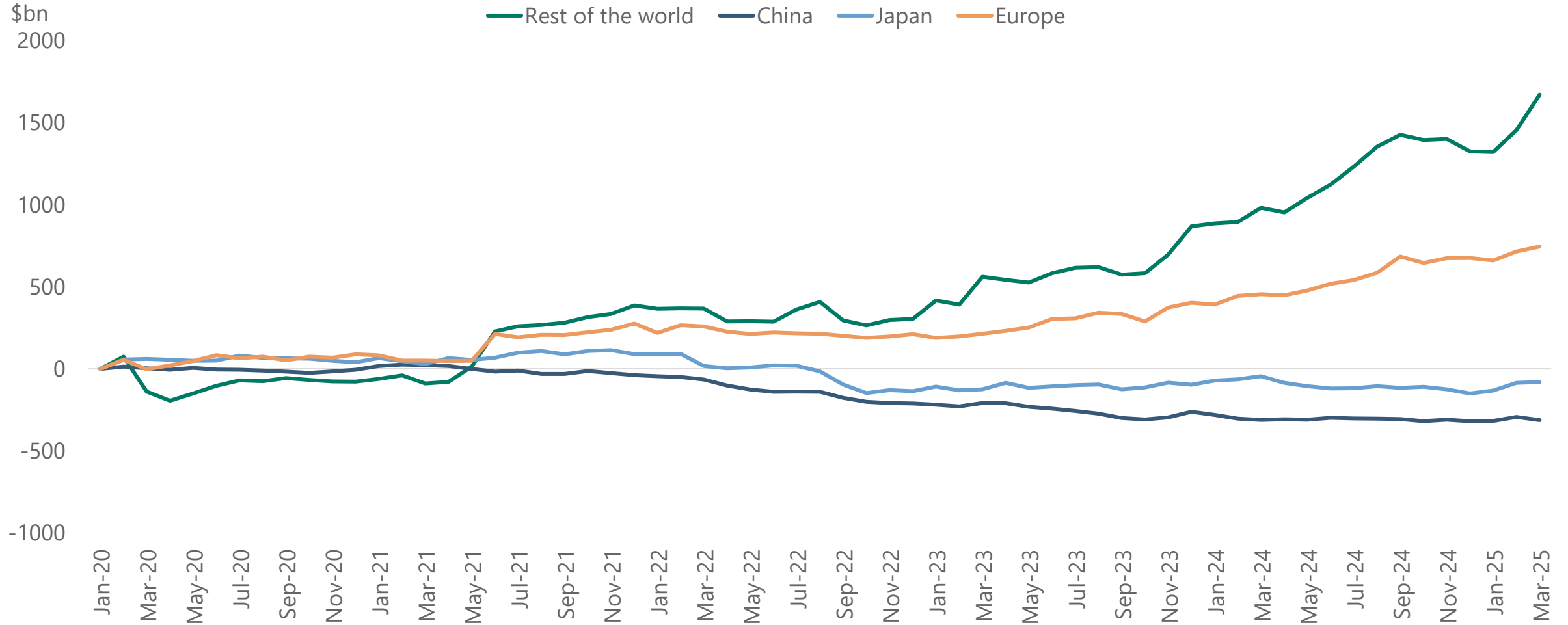
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Japanese and Chinese holdings of Treasury securities

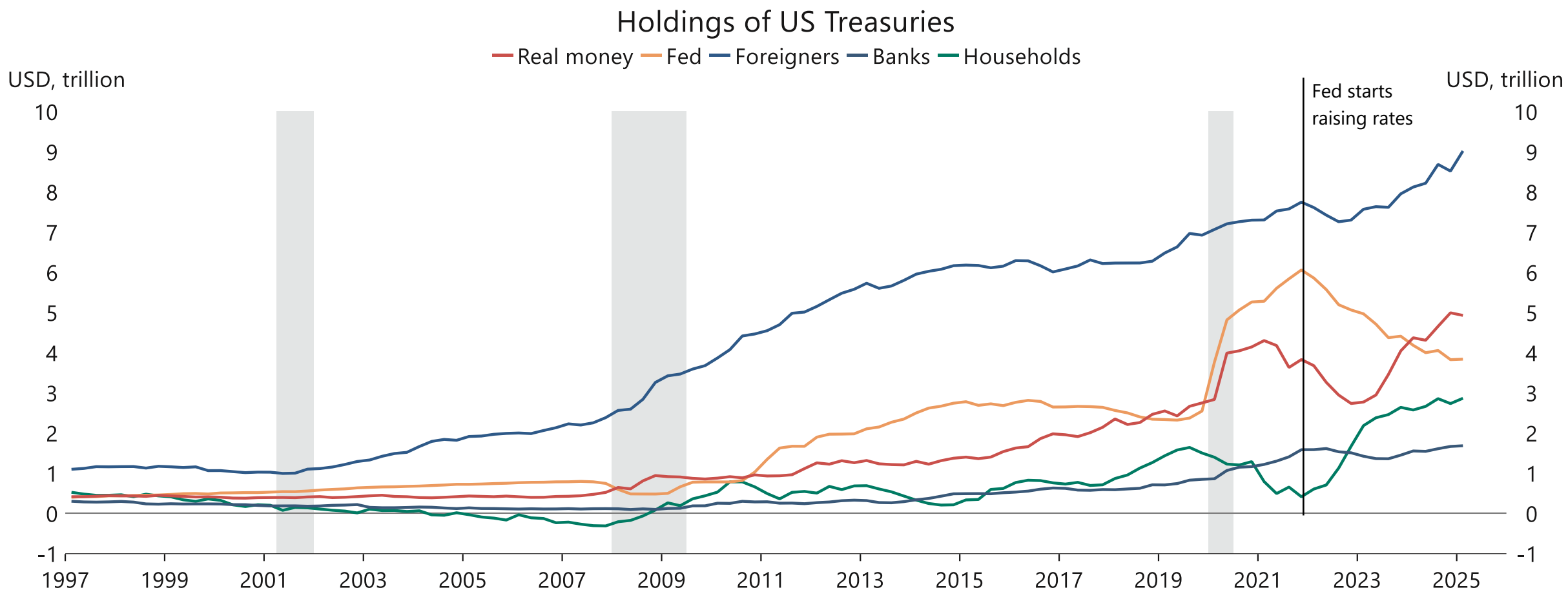


Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Change in foreign holdings of Treasuries in USD since January 2020

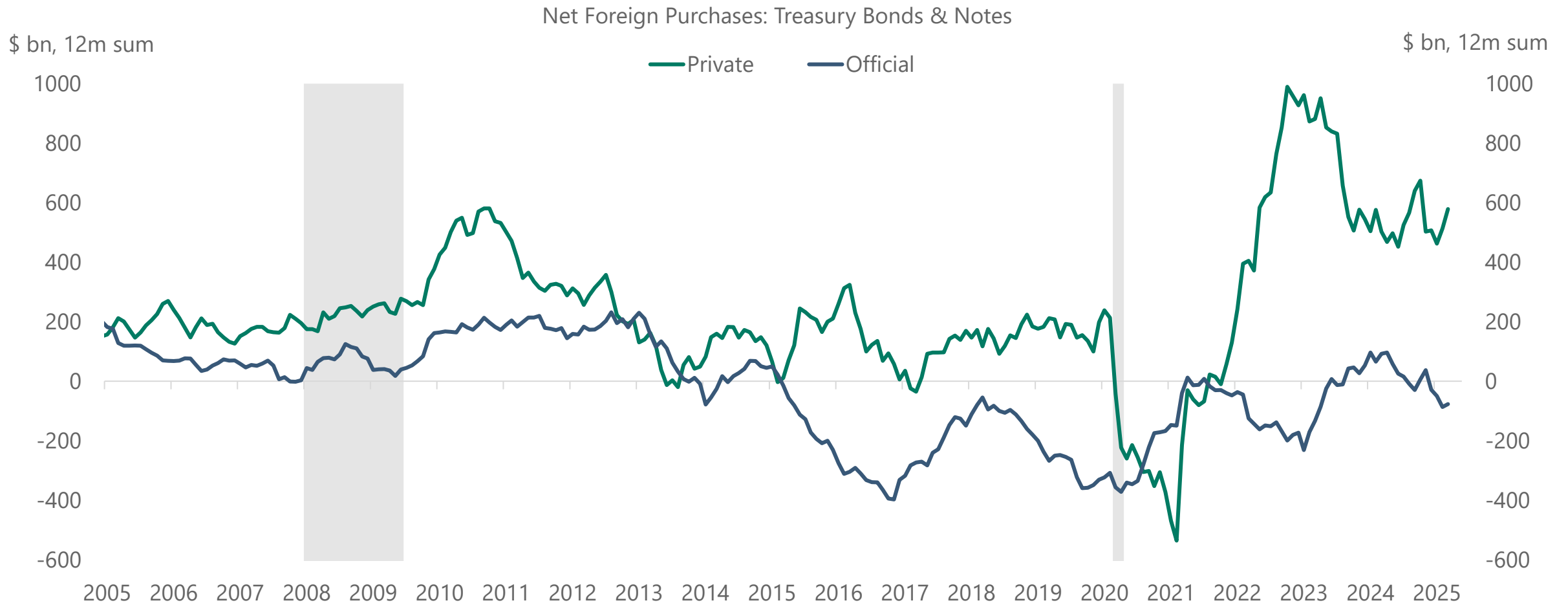


US households, foreigners, and real money buying Treasuries. Fed selling Treasuries



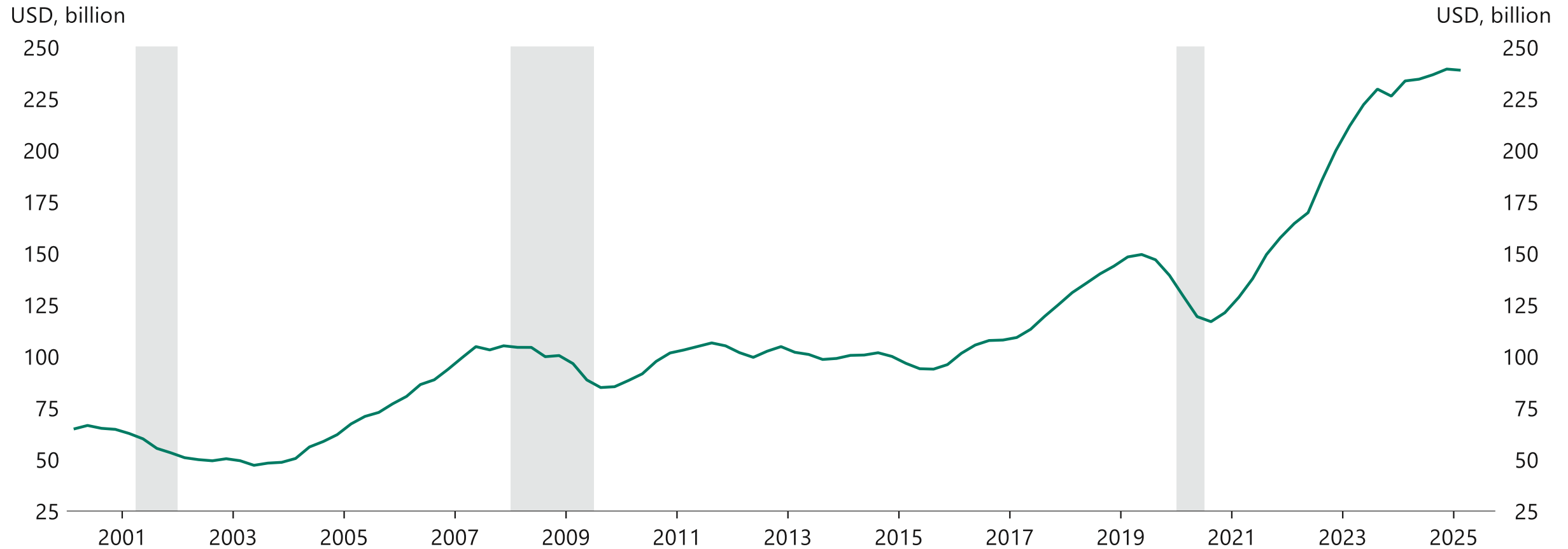
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Foreign purchases of Treasuries come mainly from the private sector



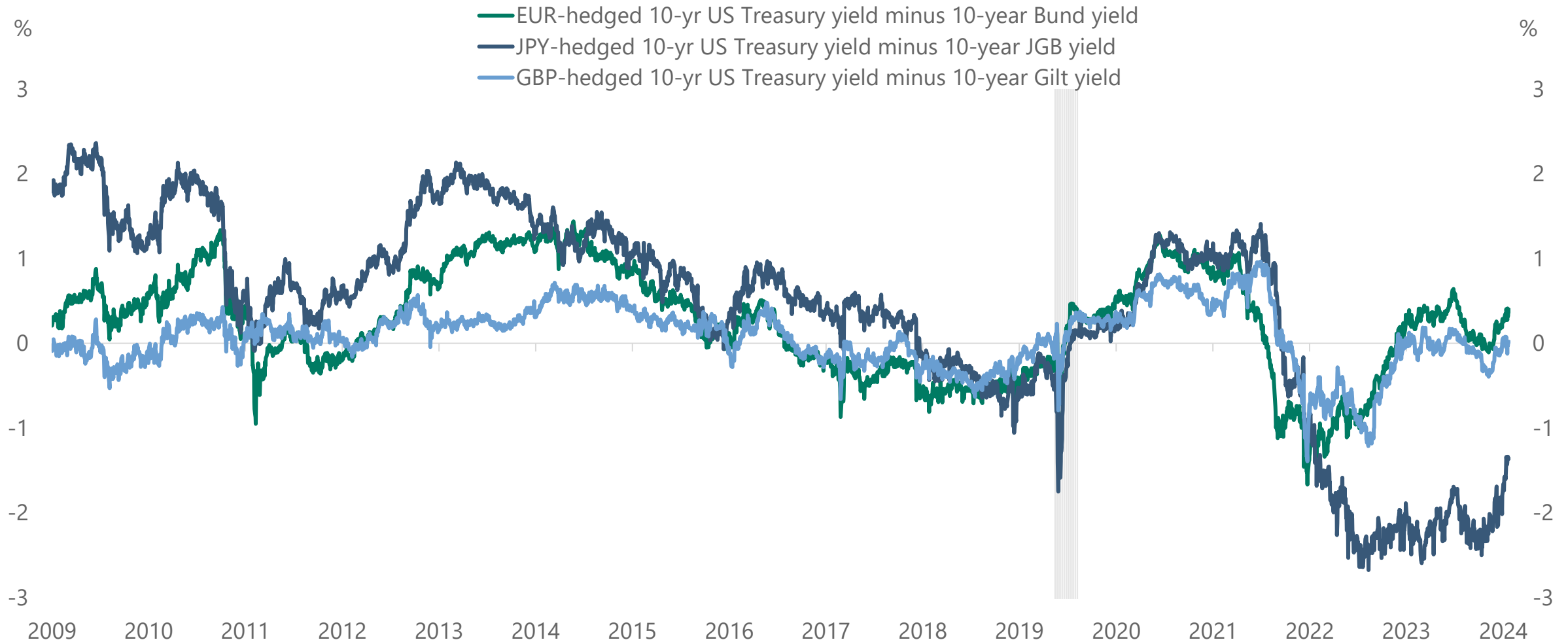
Interest payments to foreigners rising

Federal government interest payments to foreigners

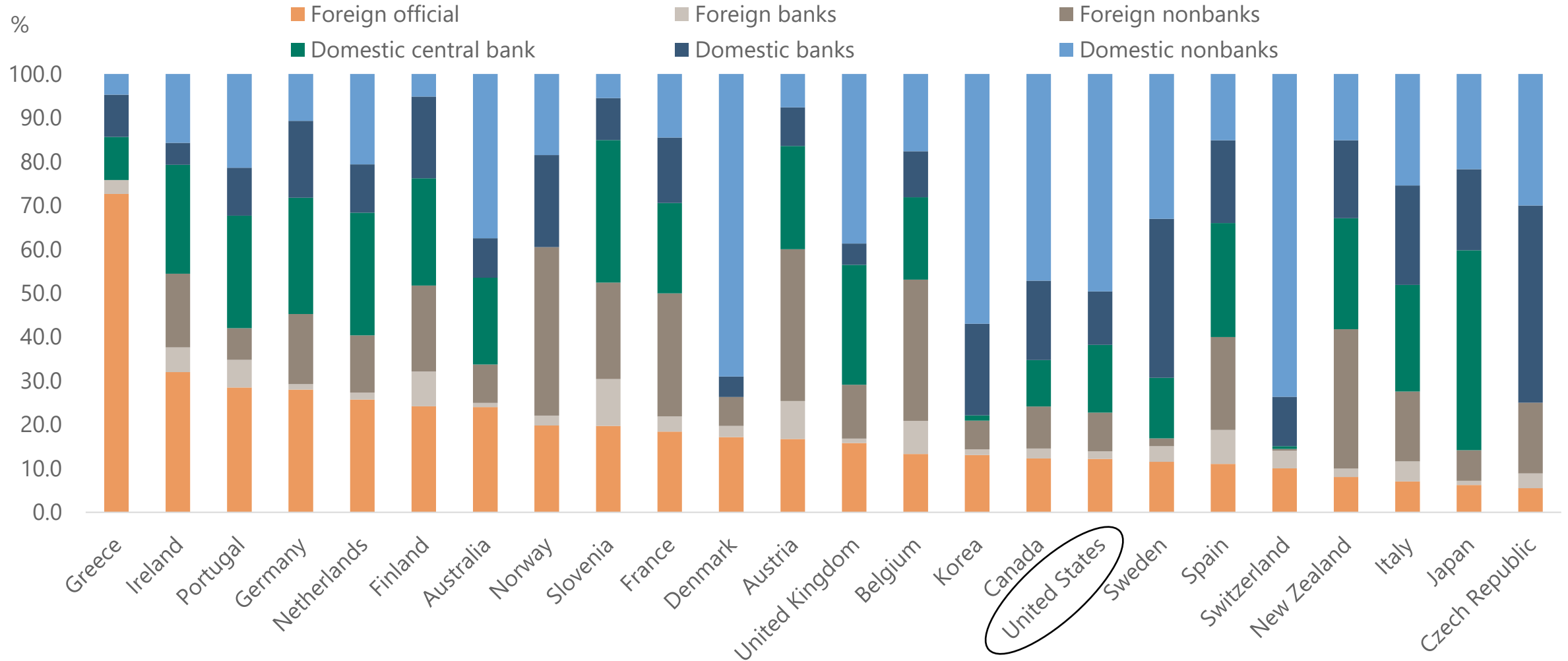


Source: U.S. Bureau of Economic Analysis (BEA), Macrobond, Apollo Chief Economist

Hedging costs are high for Japanese investors buying US Treasuries

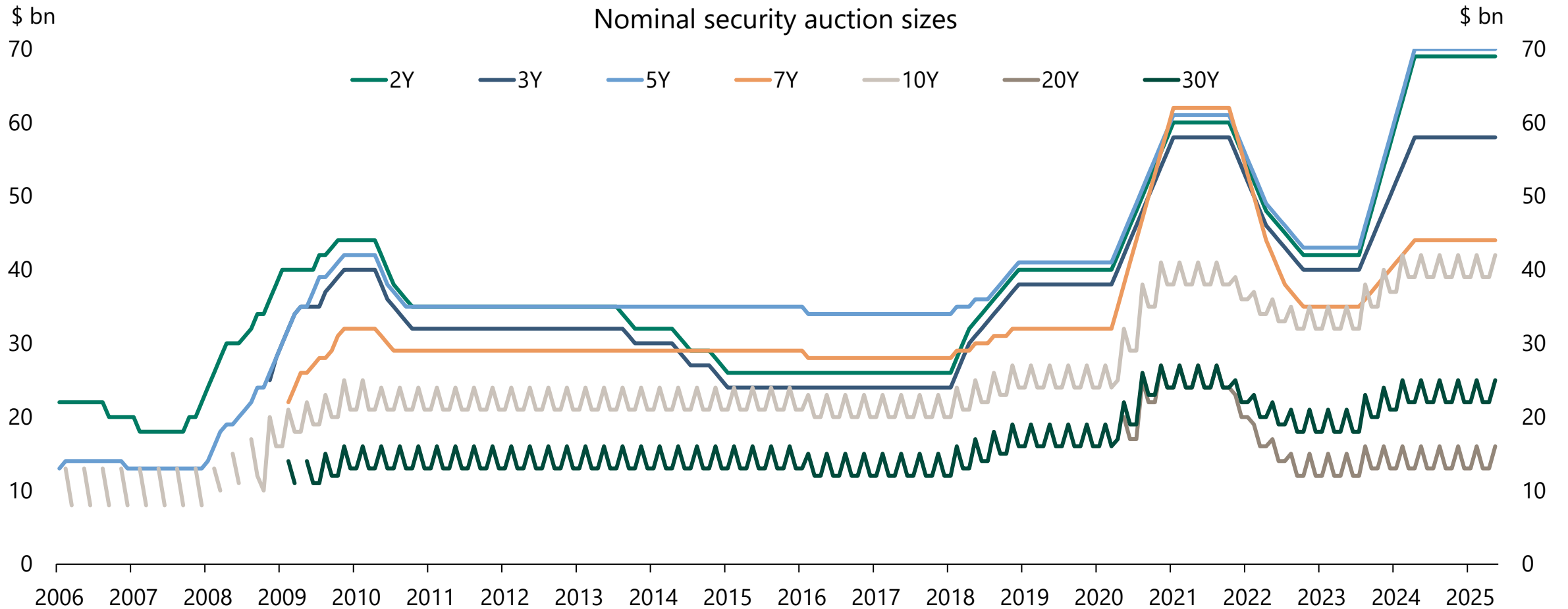


Who owns different countries' government debt?



Treasury auction metrics

Auction sizes growing in 2025



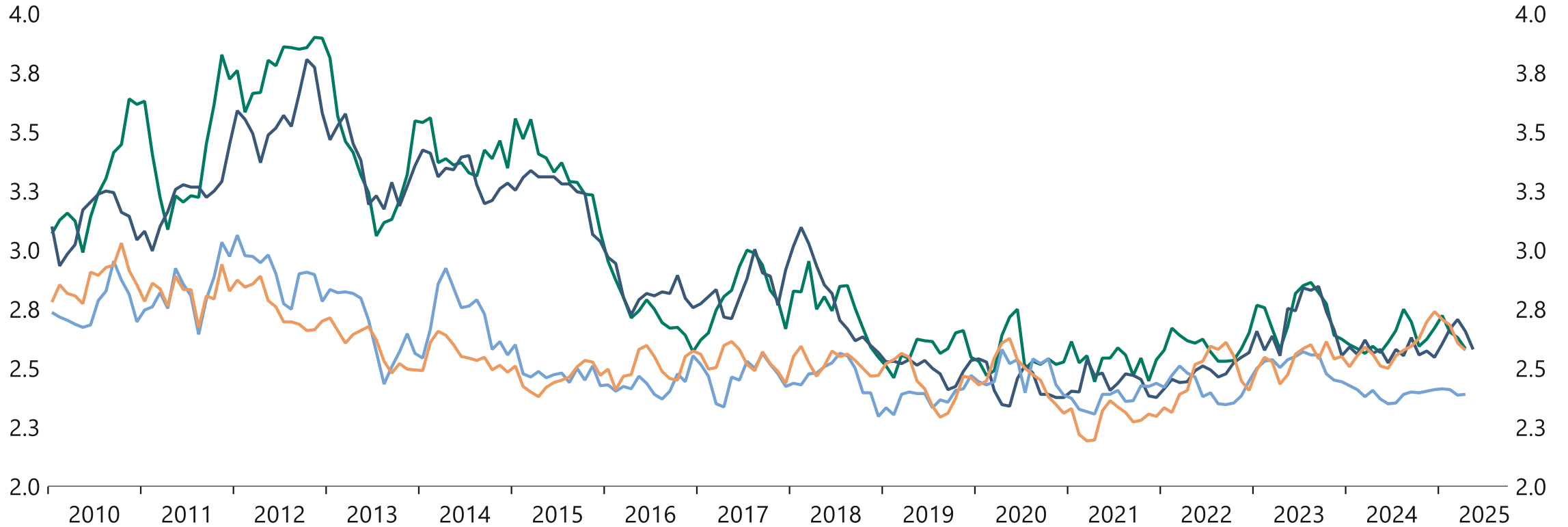
Rising Treasury supply increases downside risks to bid-to-cover ratios

Government securities auctions, bid to cover ratio

7 year 5 year 3 year 2 year

Ratio, 3mma

Ratio, 3mma

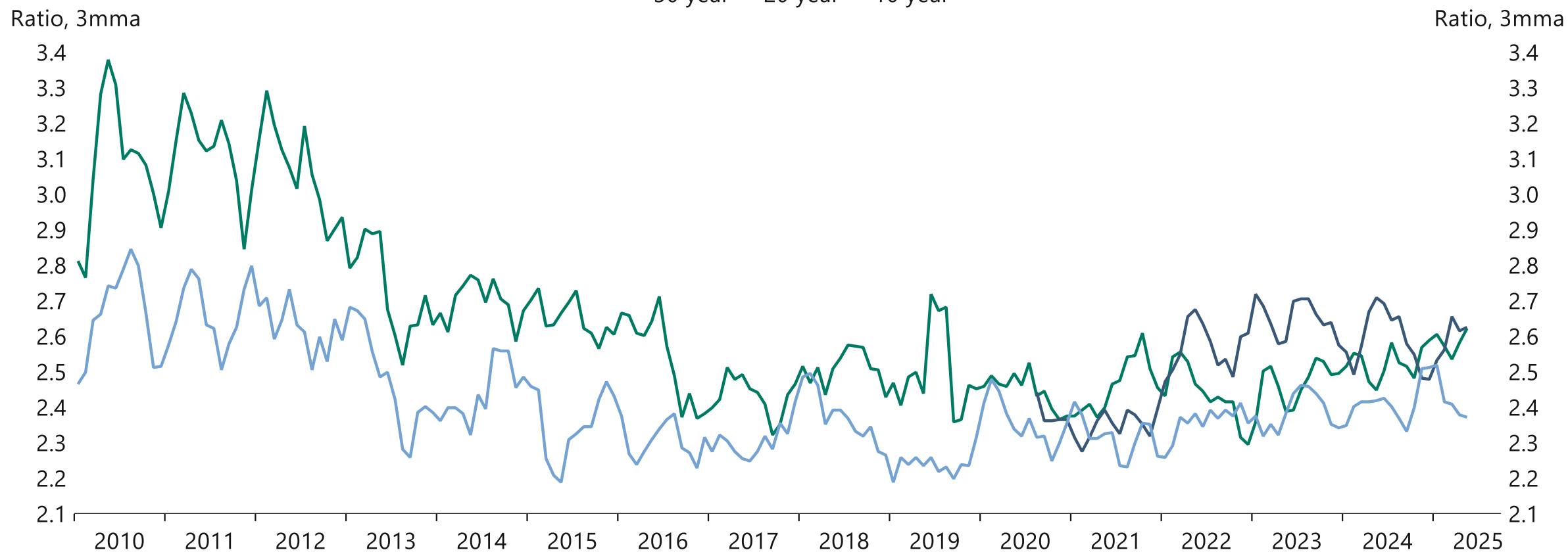


Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Rising Treasury supply increases downside risks to bid-to-cover ratios

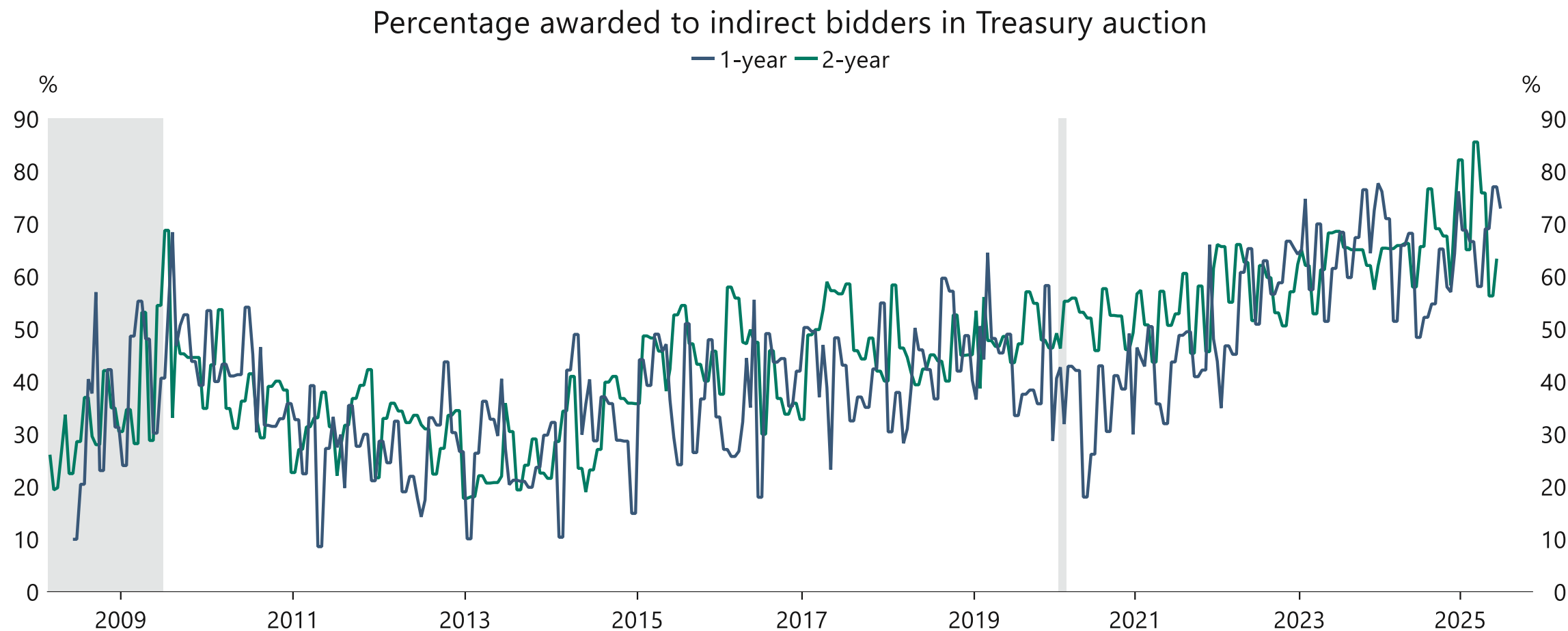
Government securities auctions, bid to cover ratio

— 30 year — 20 year — 10 year



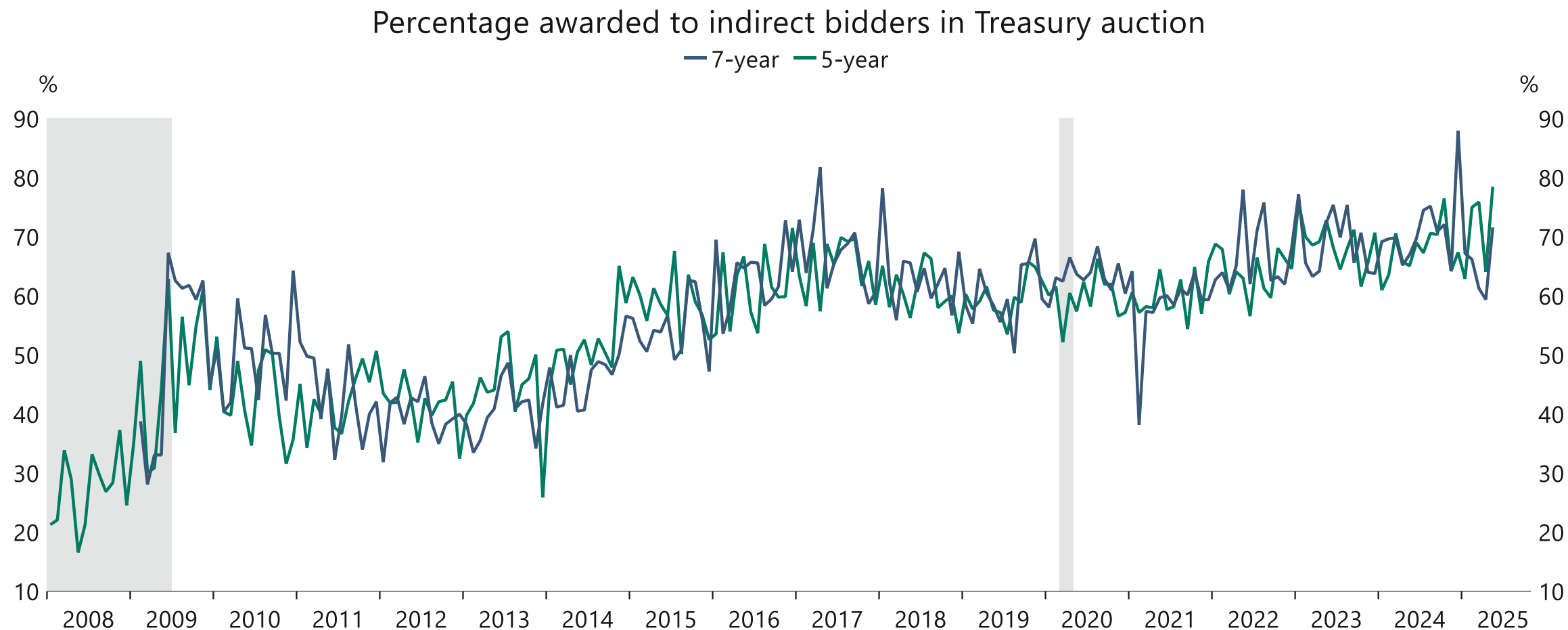
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Indirect bidder share for 1- and 2-year notes



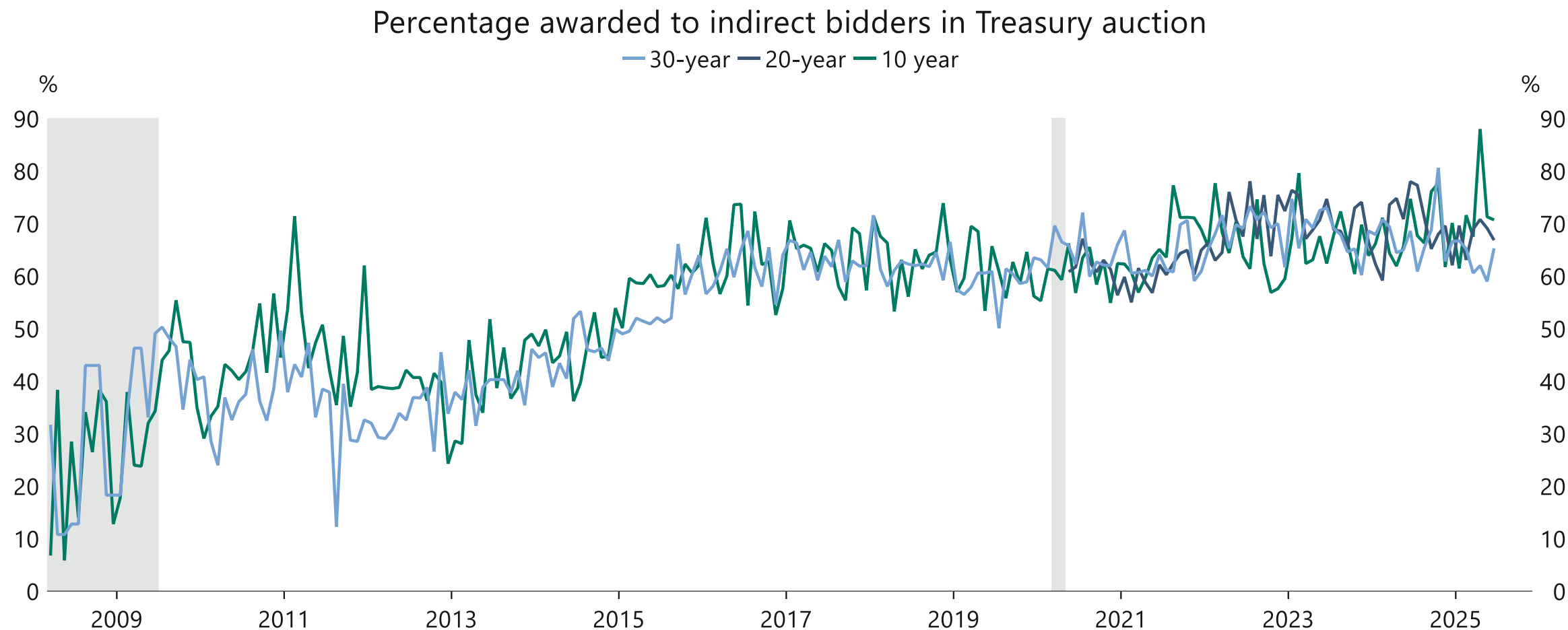
Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

Indirect bidder share for 5- and 7-year notes

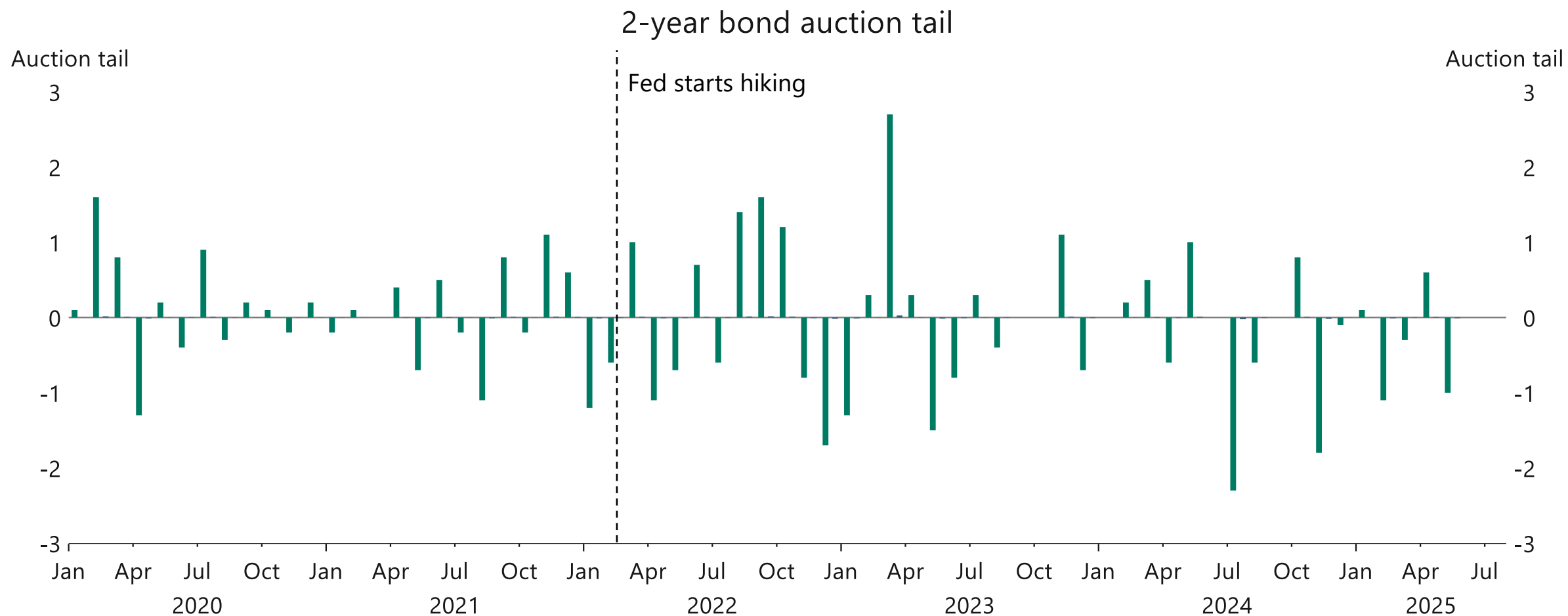


Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

Indirect bidder share for 10- 20- and 30-year Treasuries



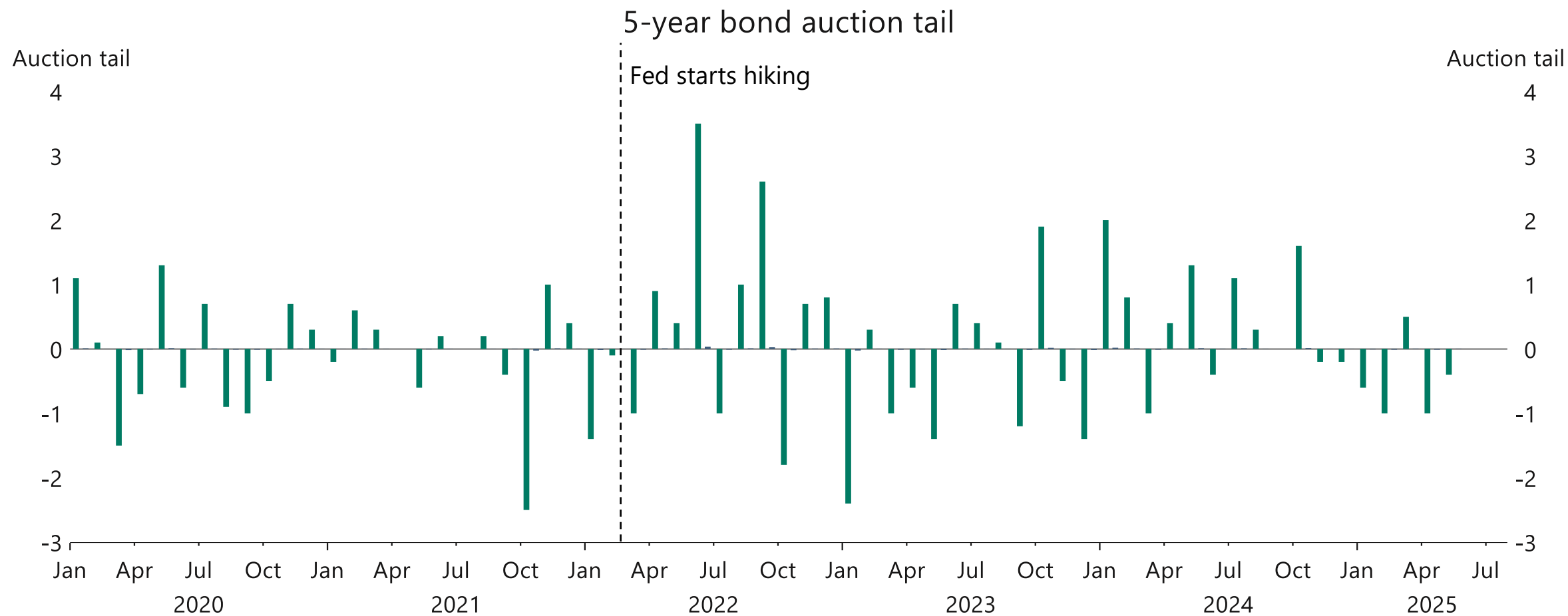
2-year bond auction tails



Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USB2YTL Index.

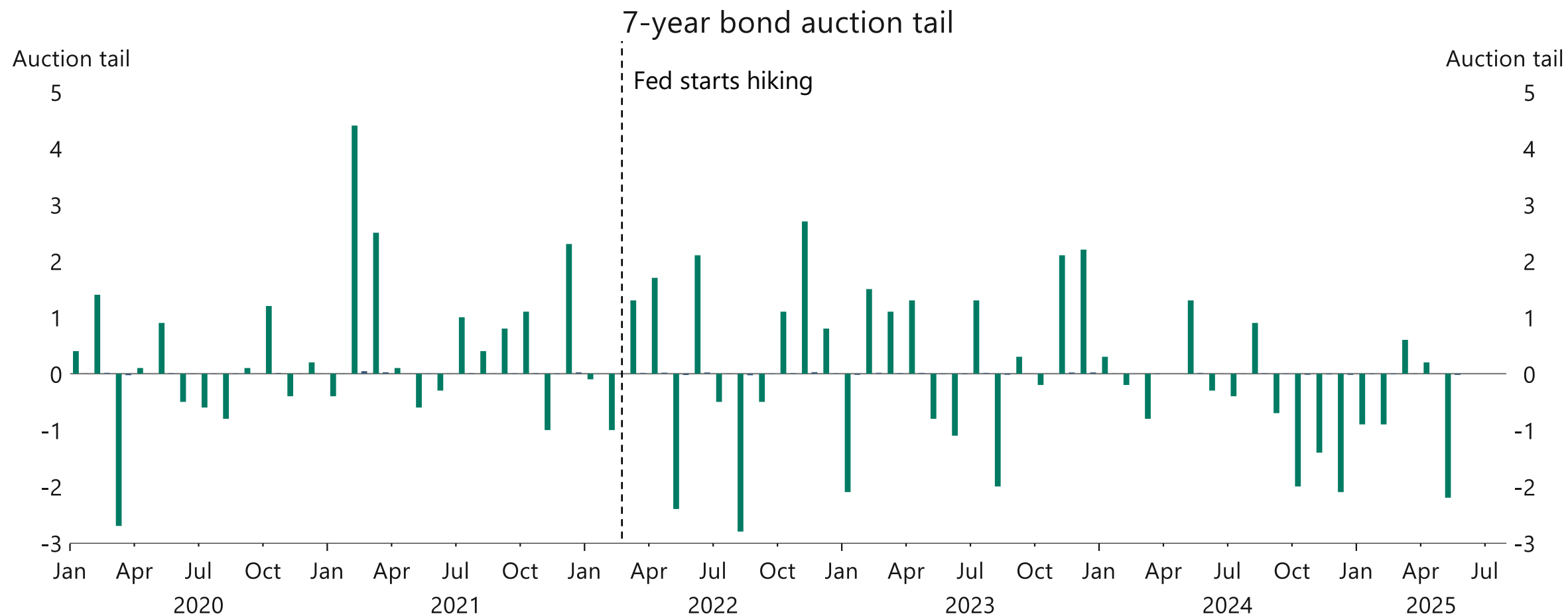


5-year bond auction tails



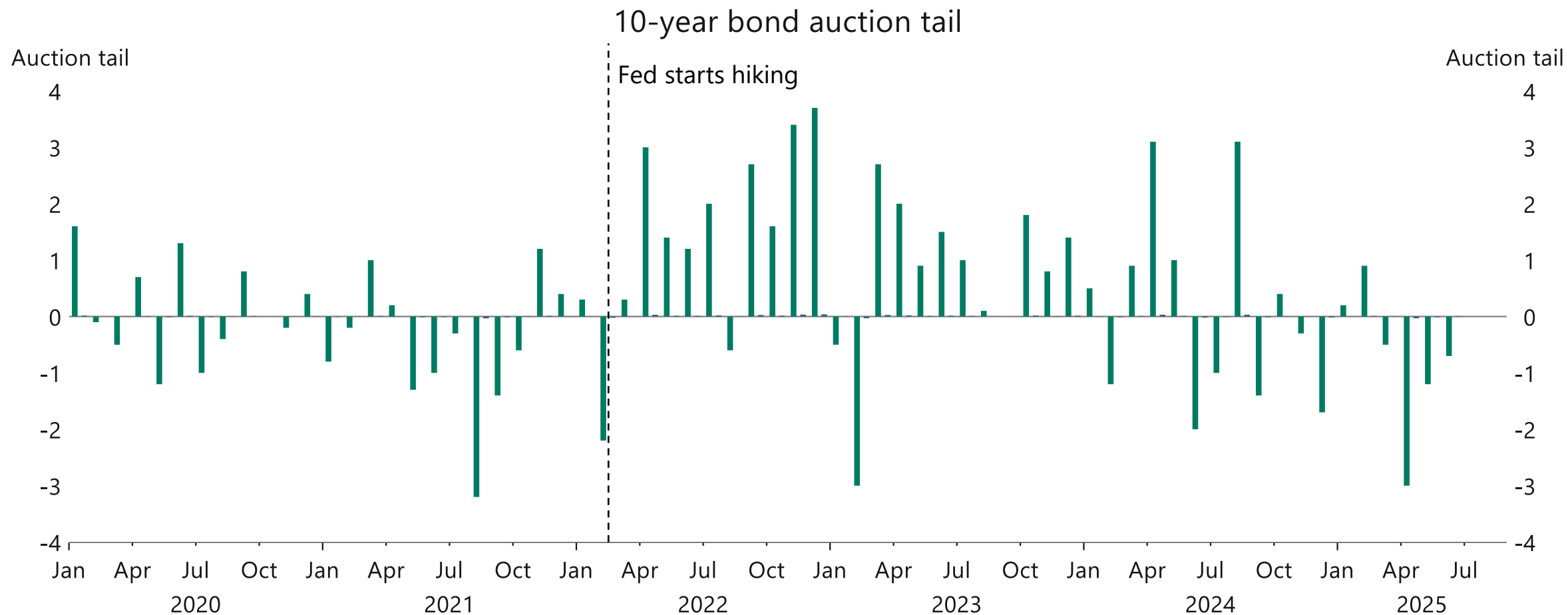
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USB5YTL Index.

7-year bond auction tails



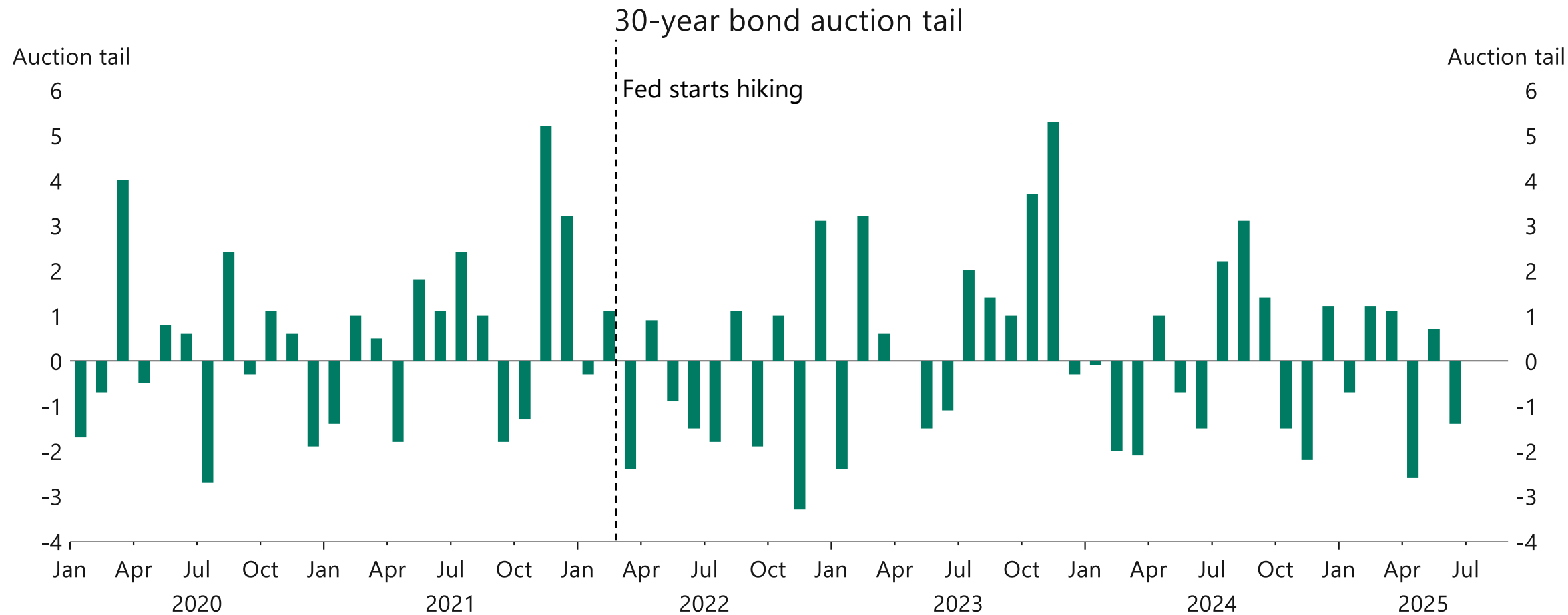
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USB7YTL Index.

10-year bond auction tails



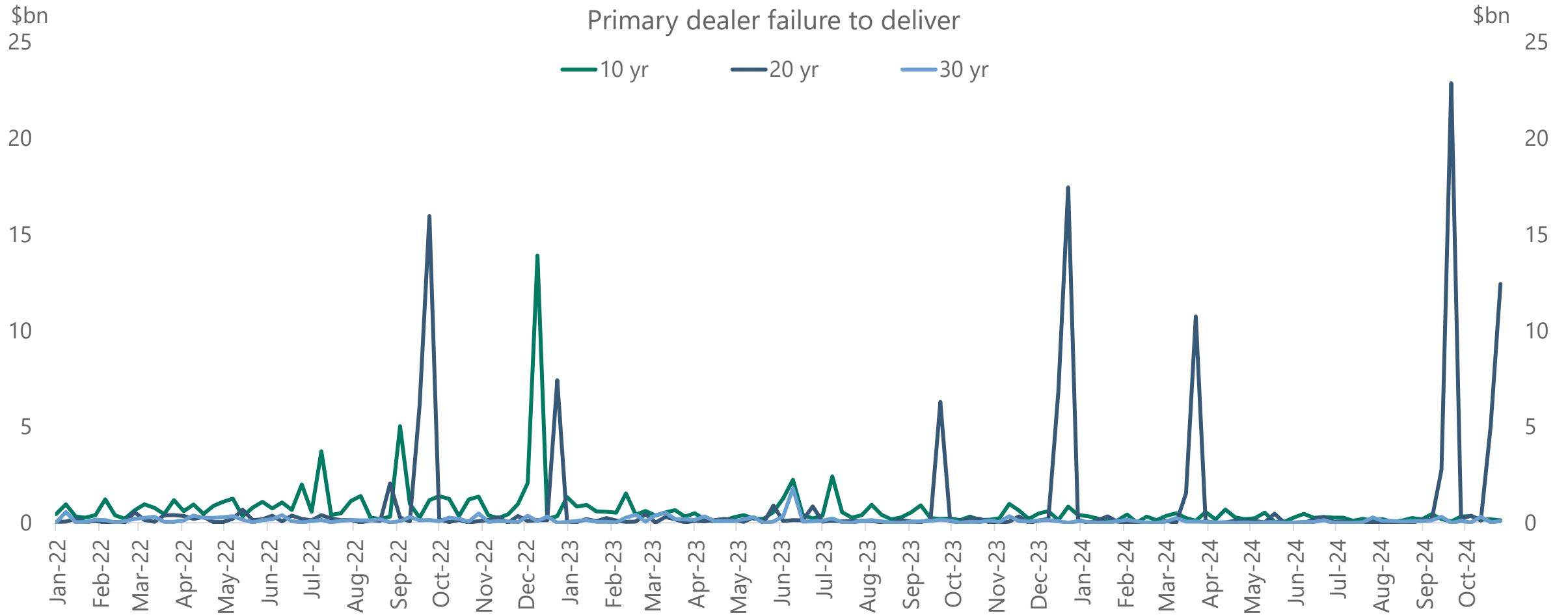
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USN10YTL Index.

30-year bond auction tails



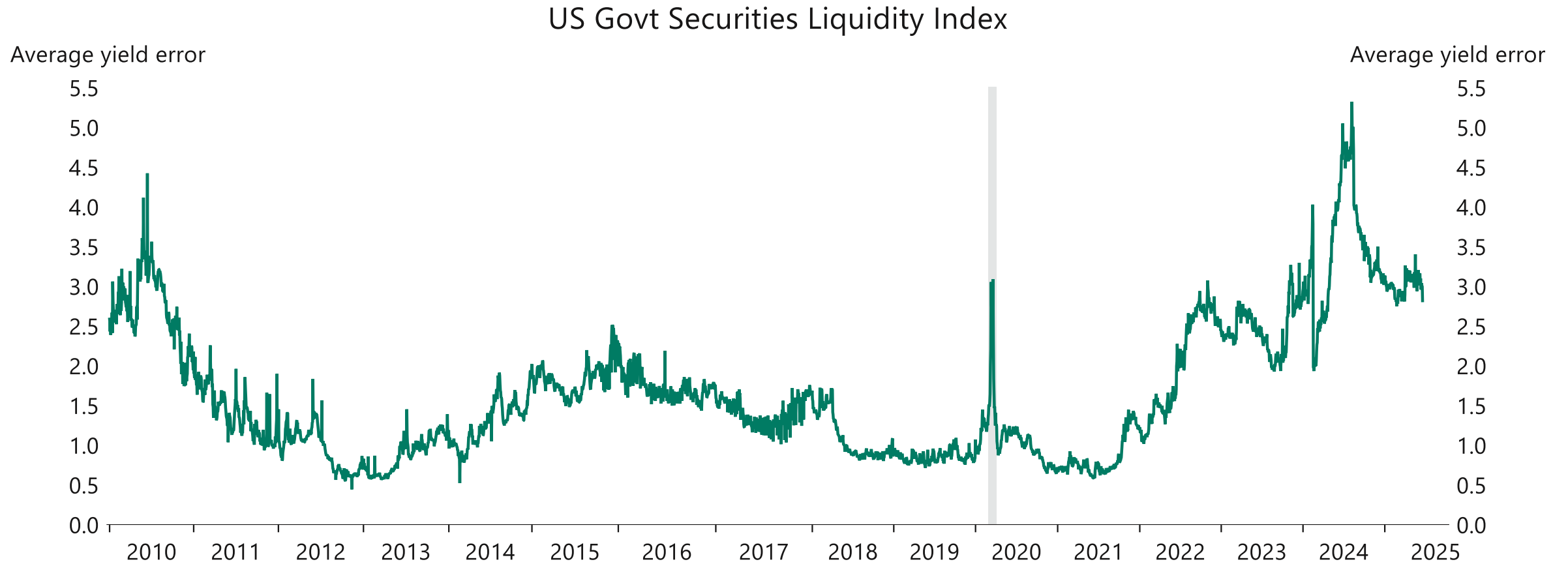
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USBD30TL Index.

Primary dealer failure to deliver Treasuries



Note: Primary dealers have a limited time to deliver securities to settle any obligations to securities buyers. For a variety of reasons, dealers may be unable to meet these obligations—for instance, if they sell a security short that they do not own and are then unable to obtain the security for delivery. The unmet obligation to a buyer is recorded as a failure to deliver. Source: OFR, FRBNY, Apollo Chief Economist

Liquidity in the Treasury market

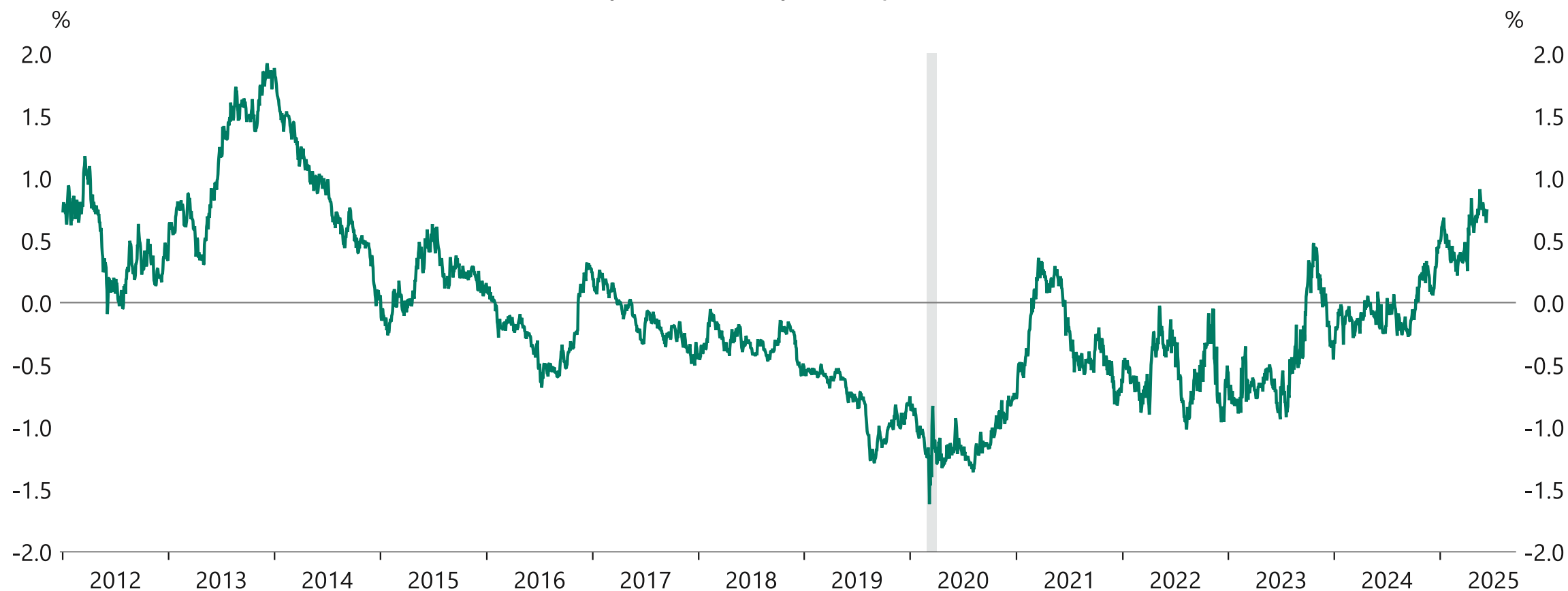


Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: The index displays the average yield error across the universe of government notes and bonds with remaining maturity 1-year or greater, based off the intra-day Bloomberg relative value curve fitter. When liquidity conditions are favorable the average yield errors are small as any dislocations from fair values are normalized within a short time frame. Average yield error is defined as an aggregate measure for dislocations in Treasury securities across the curve.

The term premium

Term premium in a longer perspective

10 year Treasury term premium



Source: Federal Reserve Bank of New York, Macrobond, Apollo Chief Economist. Note: Note: The NY Fed measure for the term premium is based on a five-factor, no-arbitrage term structure model.

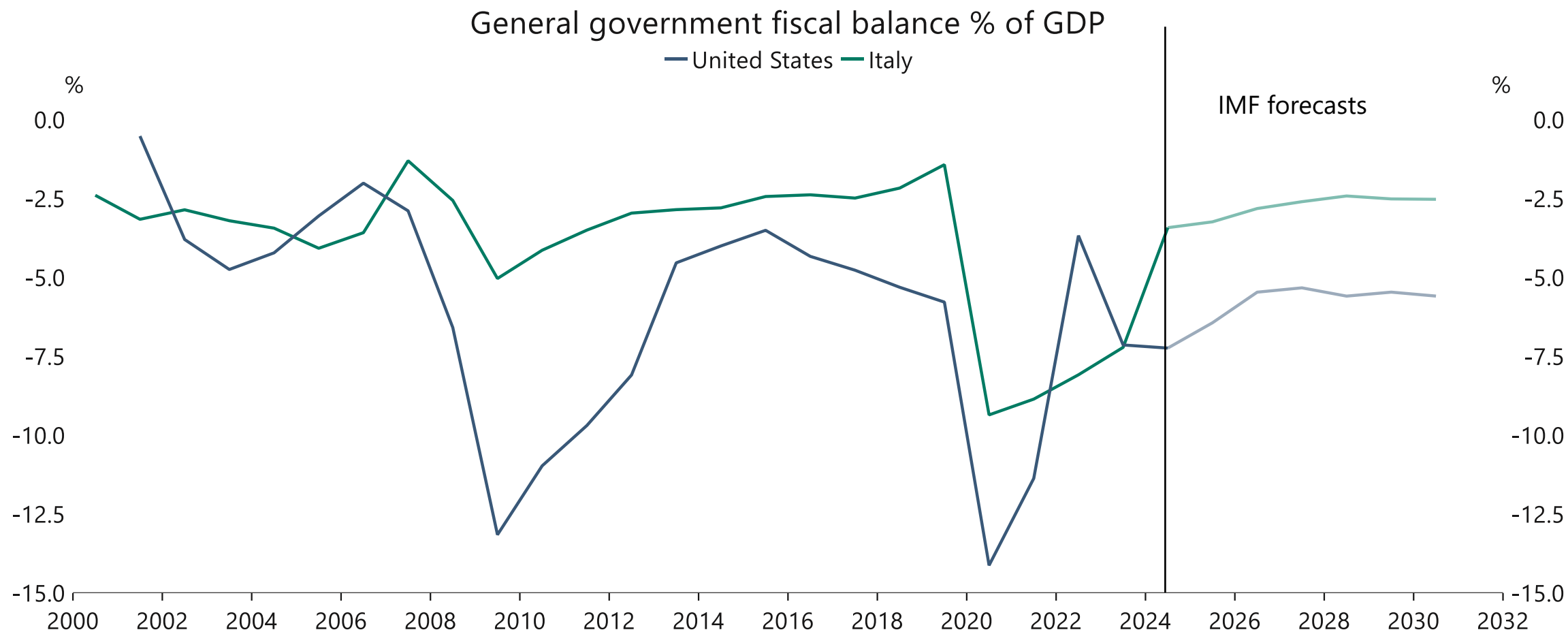
10-year Treasury yield decoupling from oil prices



Source: Bloomberg, Macrobond, Apollo Chief Economist

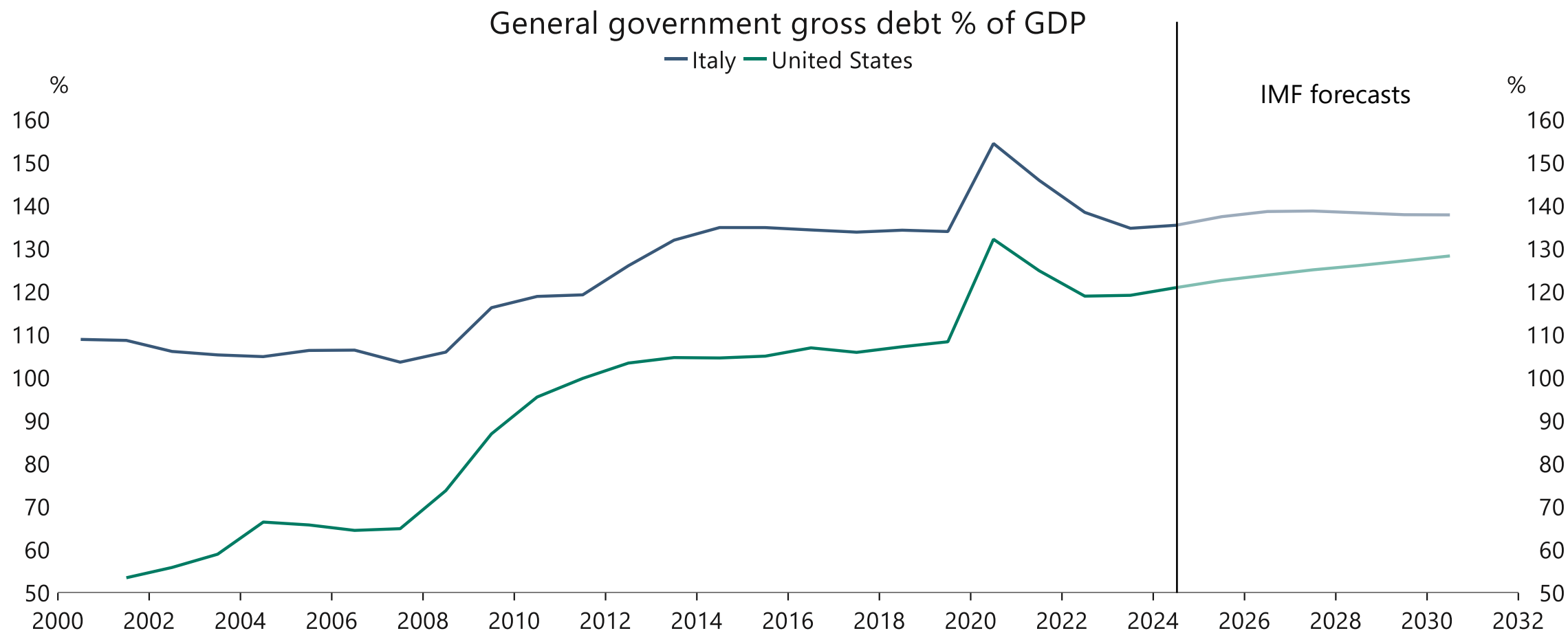
Comparison with Italy

Comparing budget deficits in the US and Italy



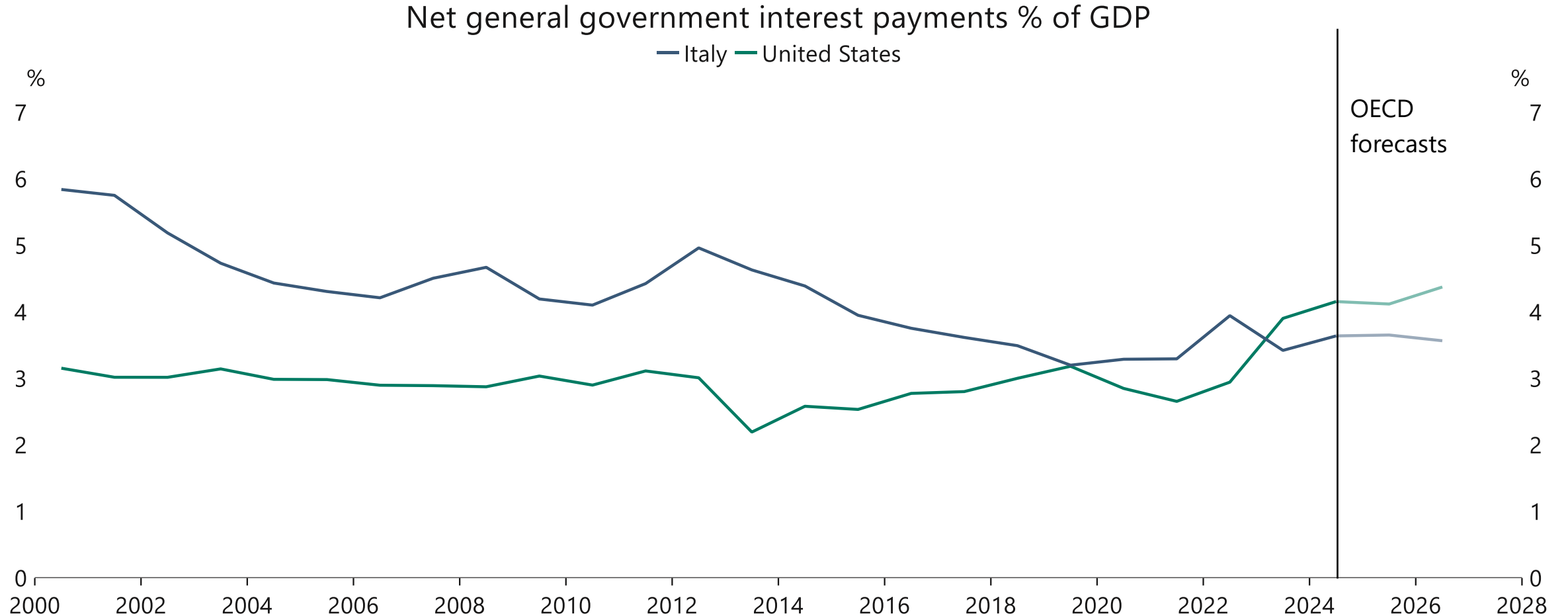
Source: International Monetary Fund (IMF), Macrobond, Apollo Chief Economist

Comparing government debt levels in the US and Italy



Source: International Monetary Fund (IMF), Macrobond, Apollo Chief Economist

Comparing net interest payments in the US and Italy



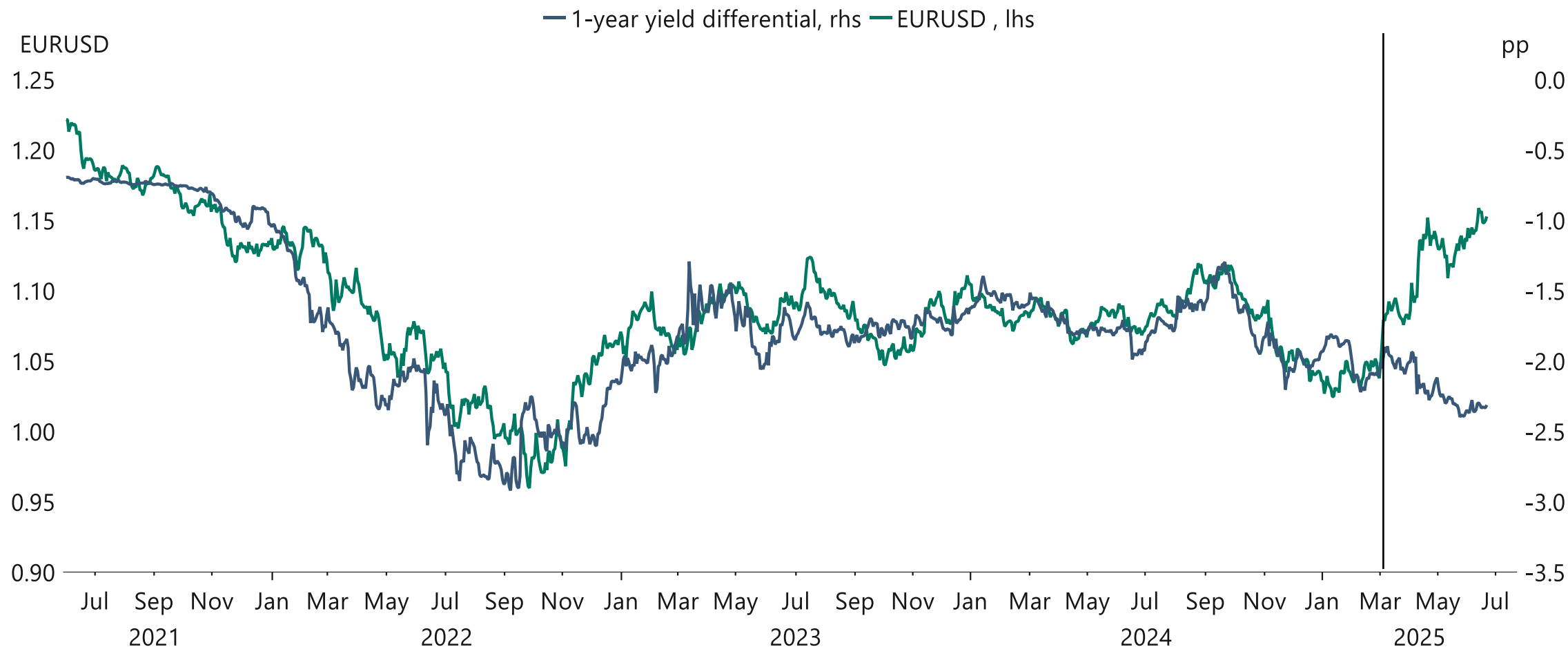
Source: OECD (Organisation for Economic Co-operation & Development), Macrobond, Apollo Chief Economist

The dollar

Characteristics of a reserve currency

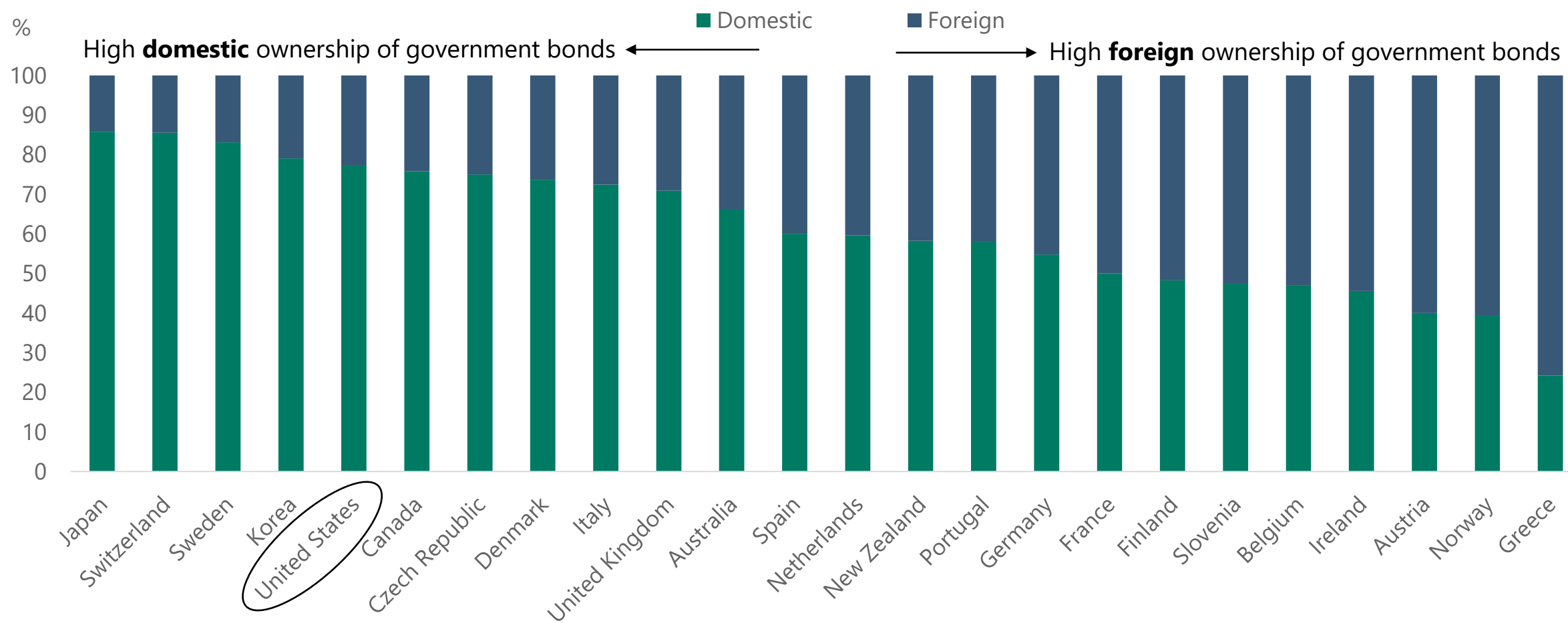
- The size of the domestic economy,
- The importance of the economy in international trade,
- The size, depth, and openness of financial markets,
- The convertibility of the currency,
- The use of the currency as a currency peg, and
- Domestic macroeconomic policies

Since the trade war started, EURUSD has been driven by other factors than interest rate differentials

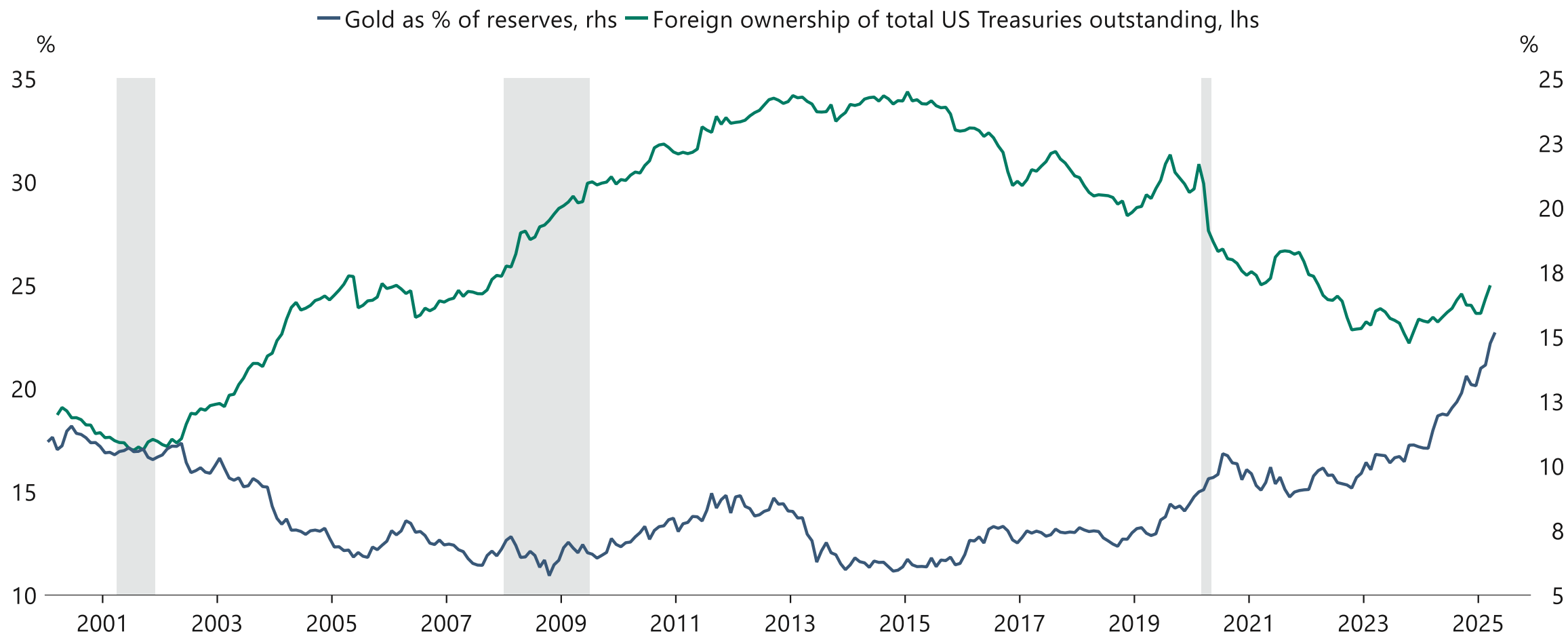


Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: 1-year yield differential = 1-year German government bill minus 1-year US T-bill. pp = percentage points

Switzerland, Japan, Korea, and US have high **domestic** ownership of government bonds

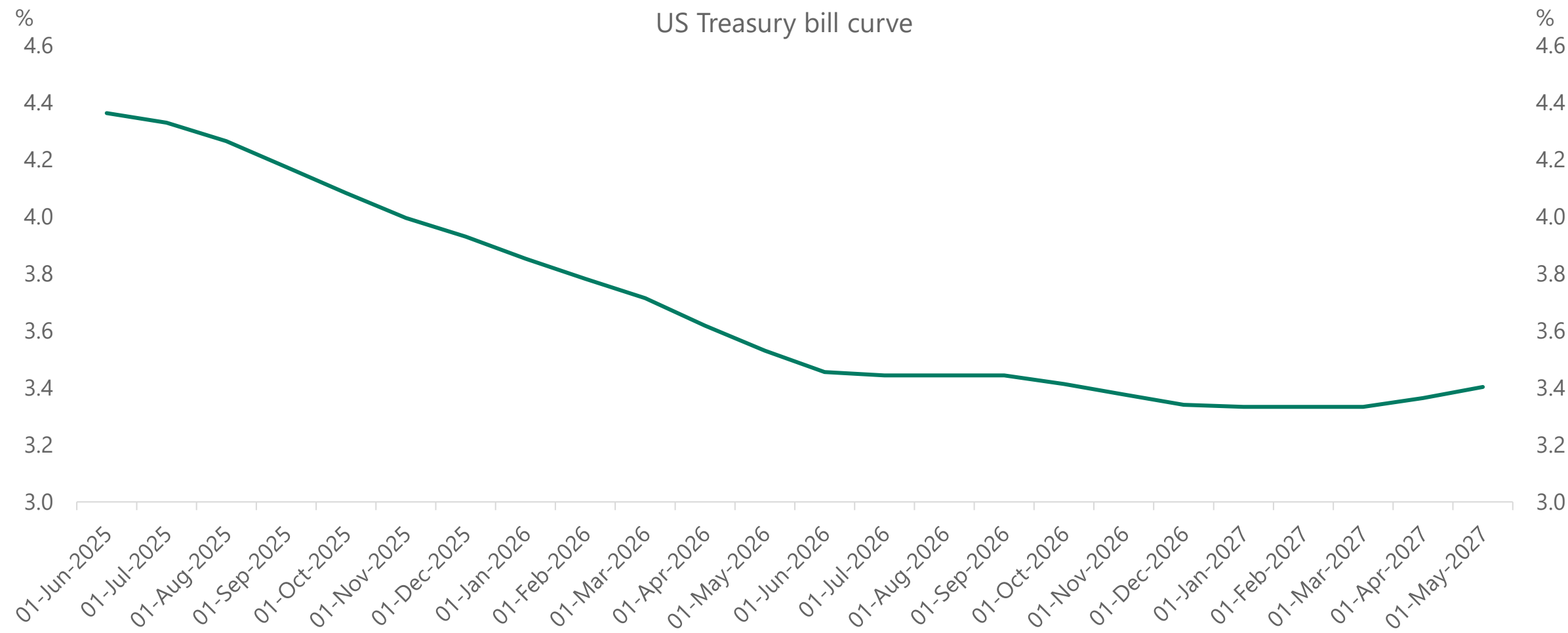


Gold reserves rising. Sanctions likely playing a role.



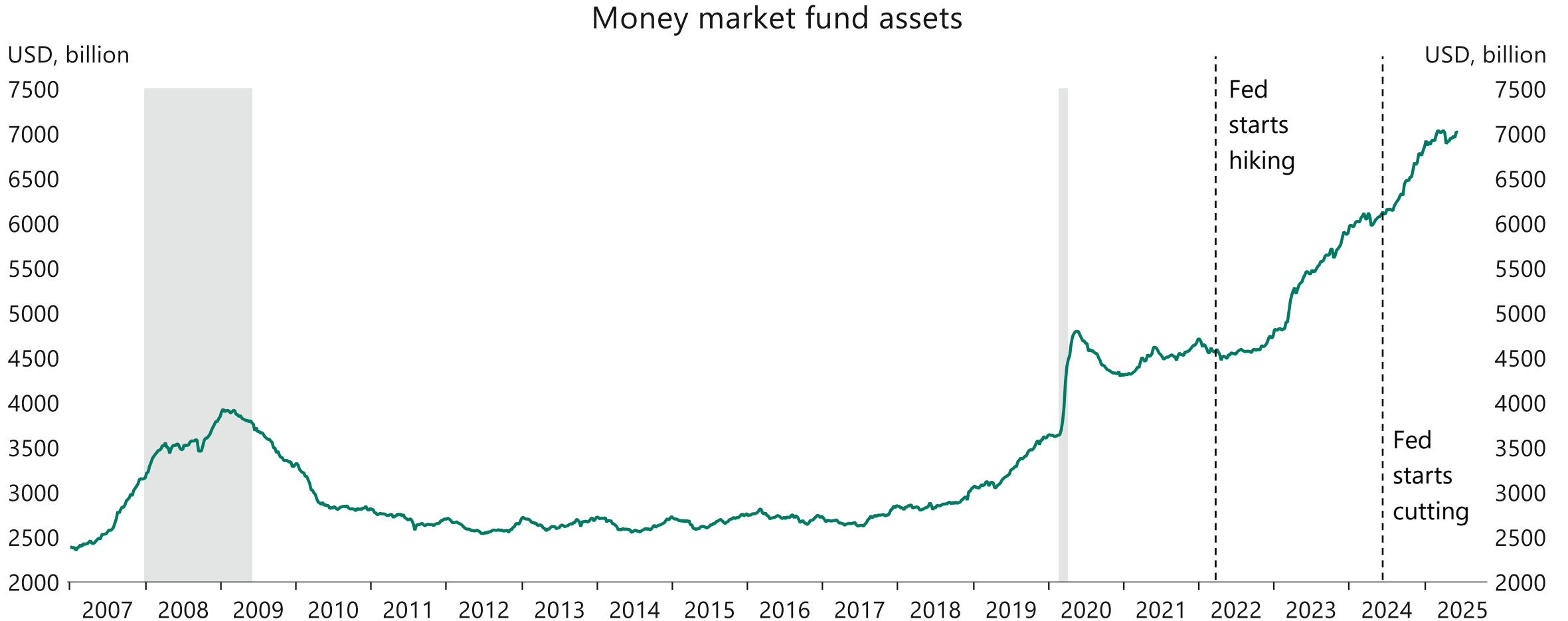
Source: U.S. Department of Treasury, International Monetary Fund (IMF), Macrobond, Apollo Chief Economist

Forward curve since debt ceiling reinstatement



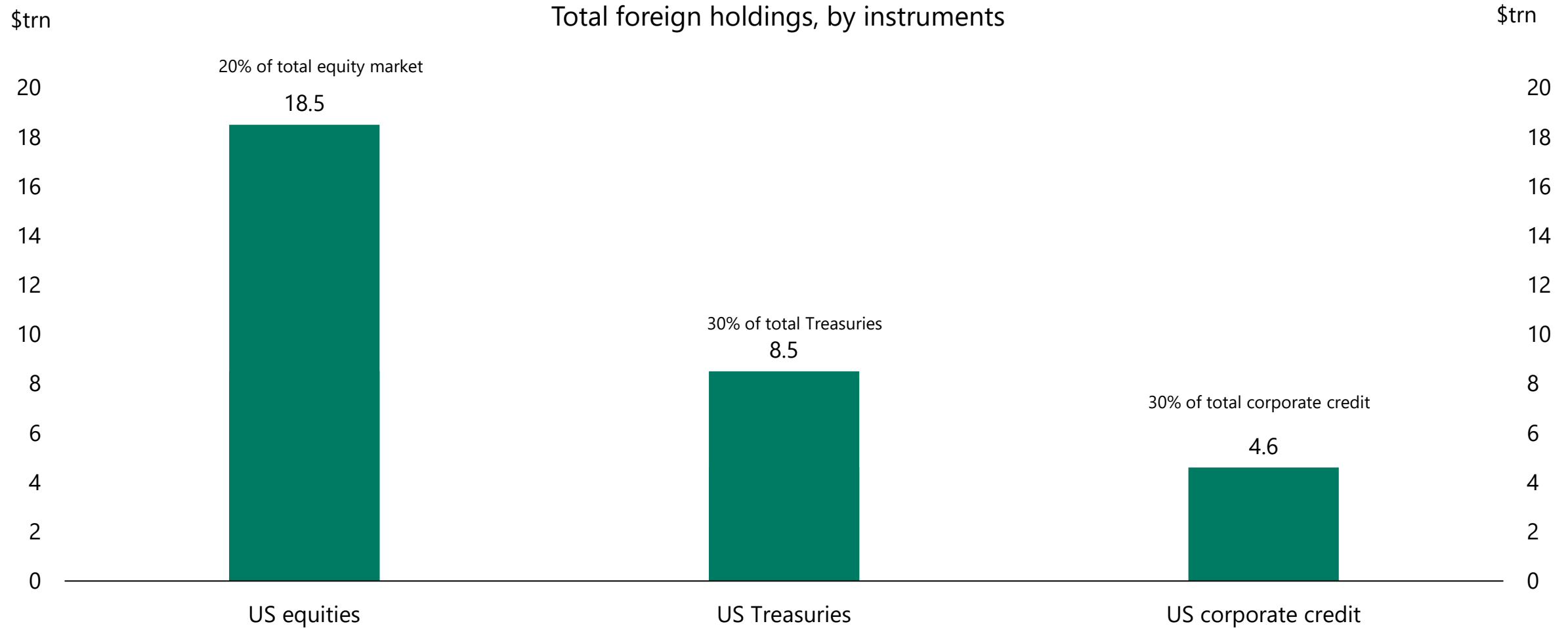
Source: Bloomberg, Apollo Chief Economist.

What will happen to money market fund assets as the Fed cuts interest rates?

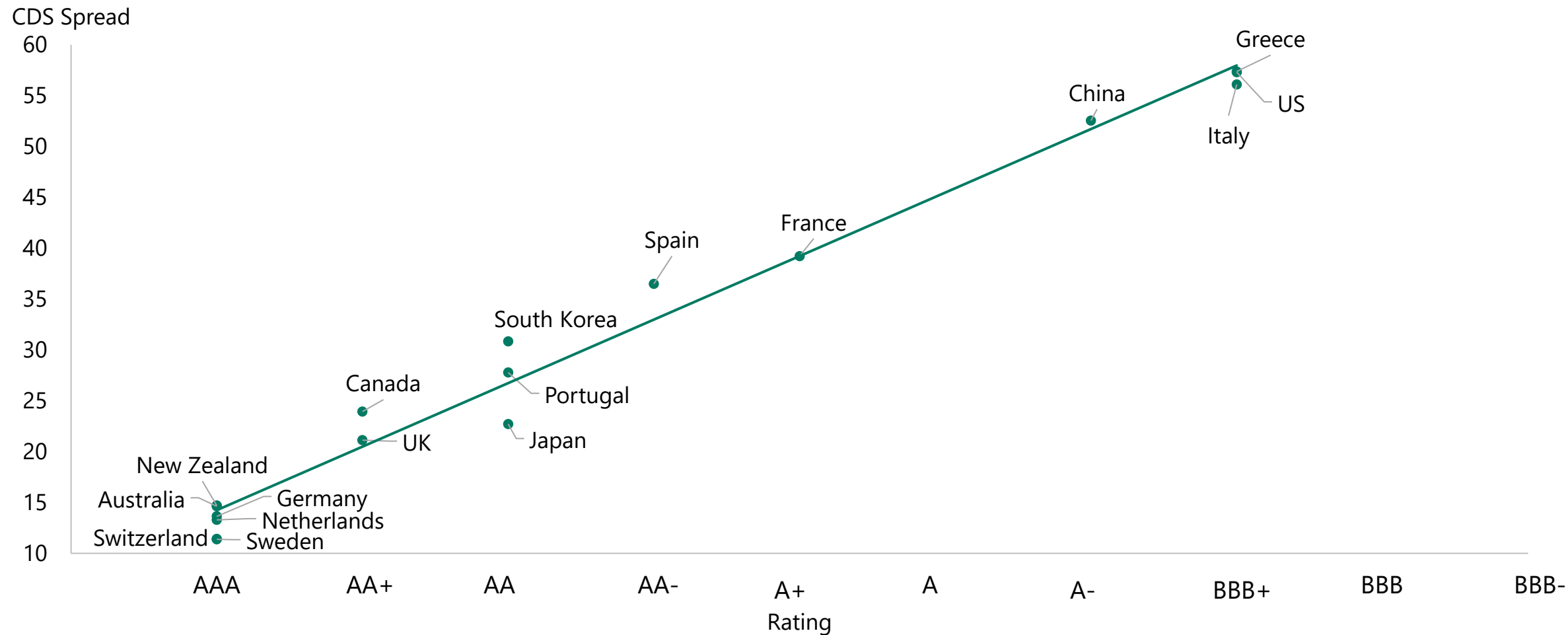


Source: Investment Company Institute (ICI), Macrobond, Apollo Chief Economist

Total foreign holdings of US equities, Treasuries, and US credit



Sovereign CDS spreads vs sovereign credit rating



Conclusion

US fiscal policy is on an unsustainable path. How could this become an issue for markets?

1. **Treasury auctions:** Weakness could appear without warning
2. **The term premium:** Has been trending higher
3. **The dollar.** Could decline further if the US economy starts to slow down

Bottom line: So far, so good.

Most likely outcome is gradually higher long-term rates and steepening of the yield curve.

Unlikely we will get a debt crisis.

If yields spike and financial stability emerges, the Fed will do QE.



Torsten Slok, Ph.D.

Chief Economist

Apollo Global Management

tslok@apollo.com

Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.

10 Facts about the US Treasury market

1. According to the CBO, government debt levels are going to rise from 100% to 200% of GDP
2. Deficits are projected to be more than \$1trn every year for the next 10 years
3. \$9trn of government debt will mature over the coming 12 months
4. Since the Fed started raising rates households, pension, and insurance have been buying more Treasuries
5. China has lowered its holdings of Treasuries from \$1.2trn in 2015 to \$800bn today
6. A rising share of debt outstanding is T-bills, currently 22%
7. The weighted average maturity of debt outstanding is declining
8. Treasury auction sizes in 2024 have increased on average 27% across the yield curve
9. Debt servicing costs are currently 13% of total government outlays
10. Interest payments have increased from \$1bn per day before the pandemic to currently \$3bn per day