

APOLLO

Understanding demand for Treasuries and why the yield curve is steepening

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Apollo Global Management

January 2026

Unless otherwise noted, information as of January 2026.

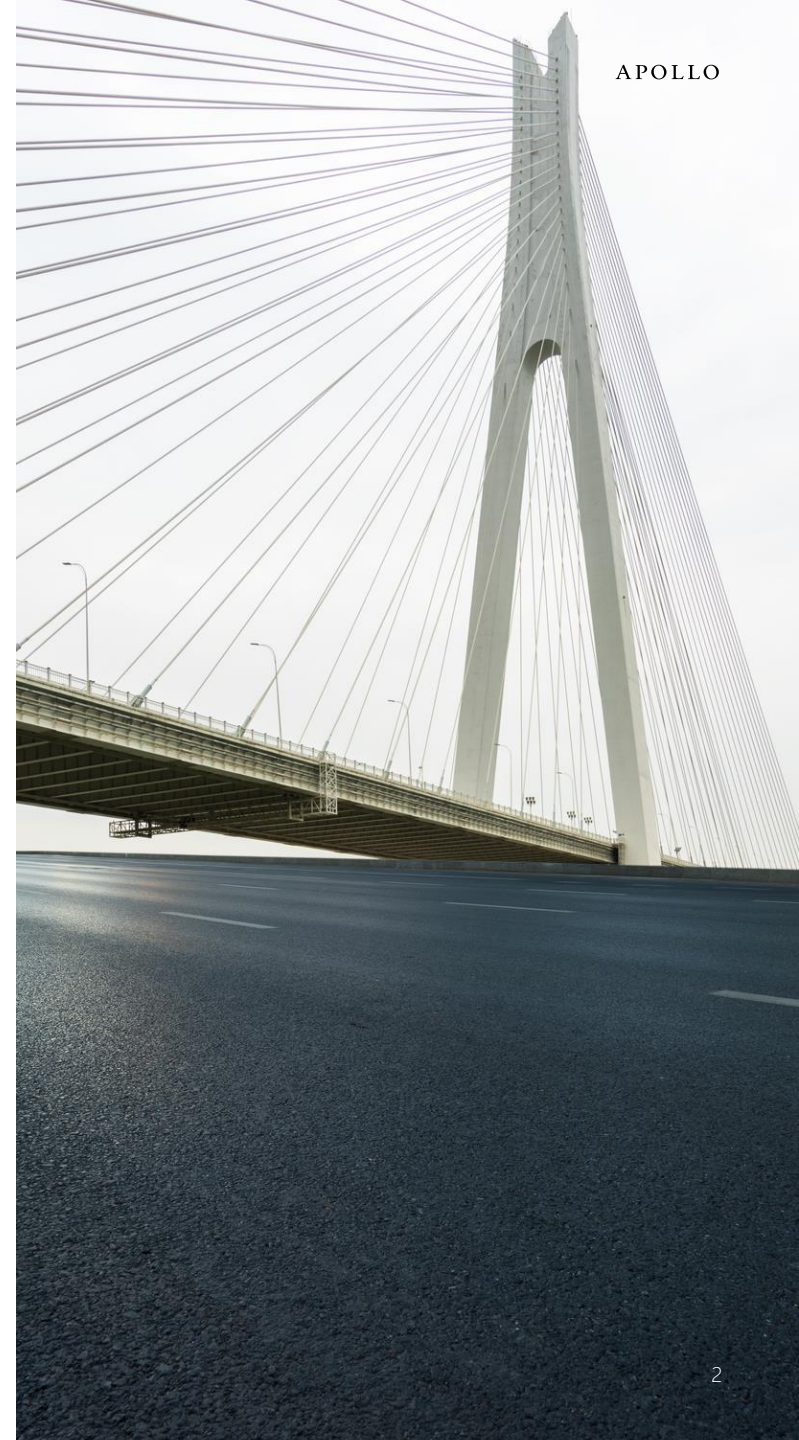
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Why is the yield curve steepening?

1. The Fed is cutting rates
2. If the market thinks the Fed is cutting for political reasons, it puts upward pressure on inflation expectations and ultimately long rates, which also steepens the curve.
3. Growing Treasury issuance is putting upward pressure on long rates.

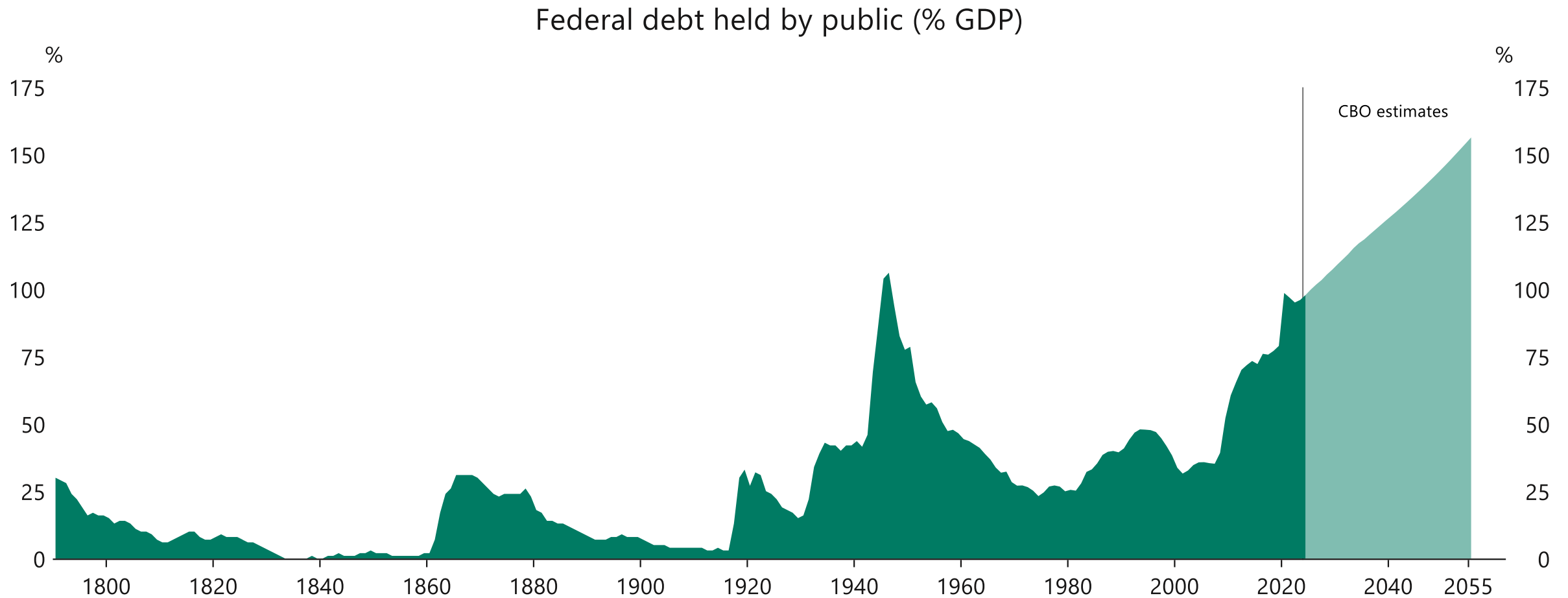
Spread between 30s and 10s continues to widen



Source: Bloomberg, Macrobond, Apollo Chief Economist

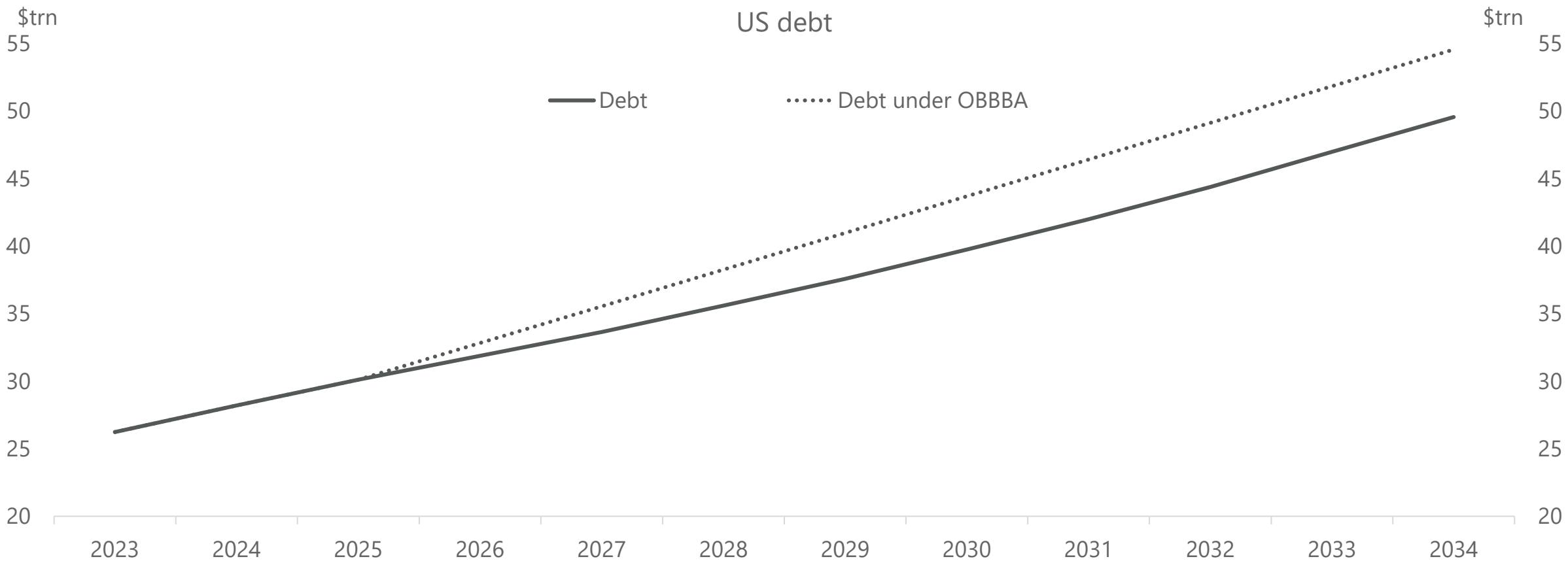
The US fiscal outlook

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

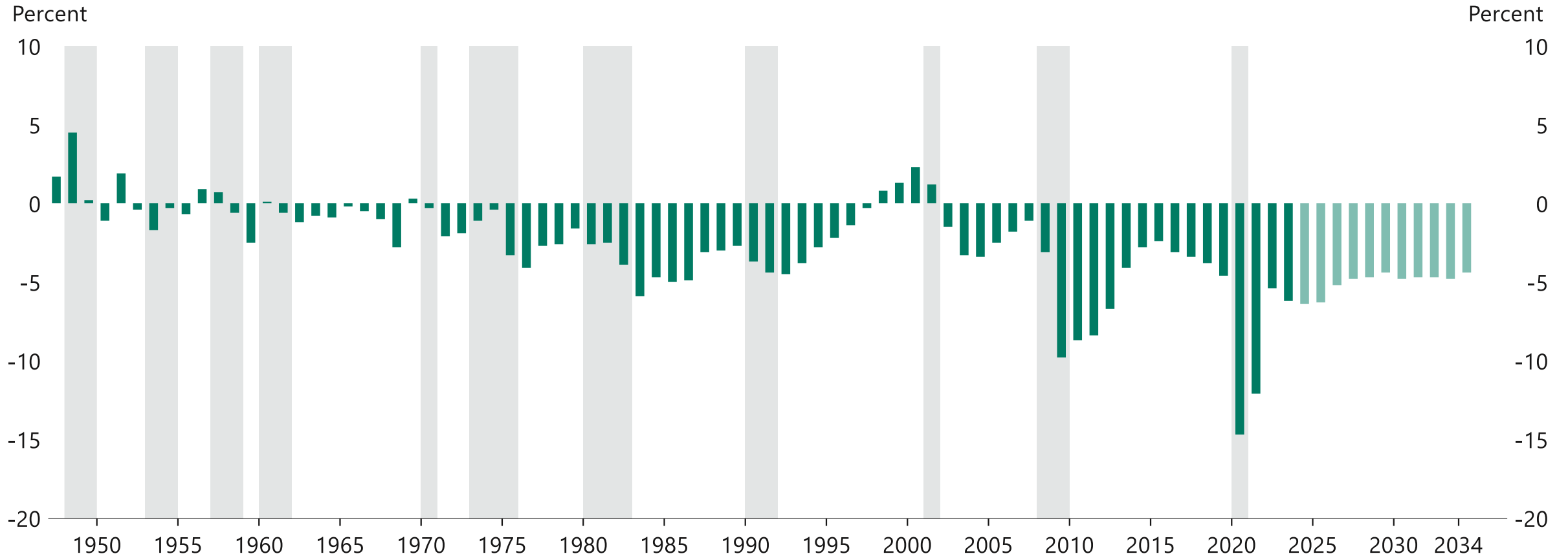
Debt levels expected to rise further under the One Big Beautiful Bill Act



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.

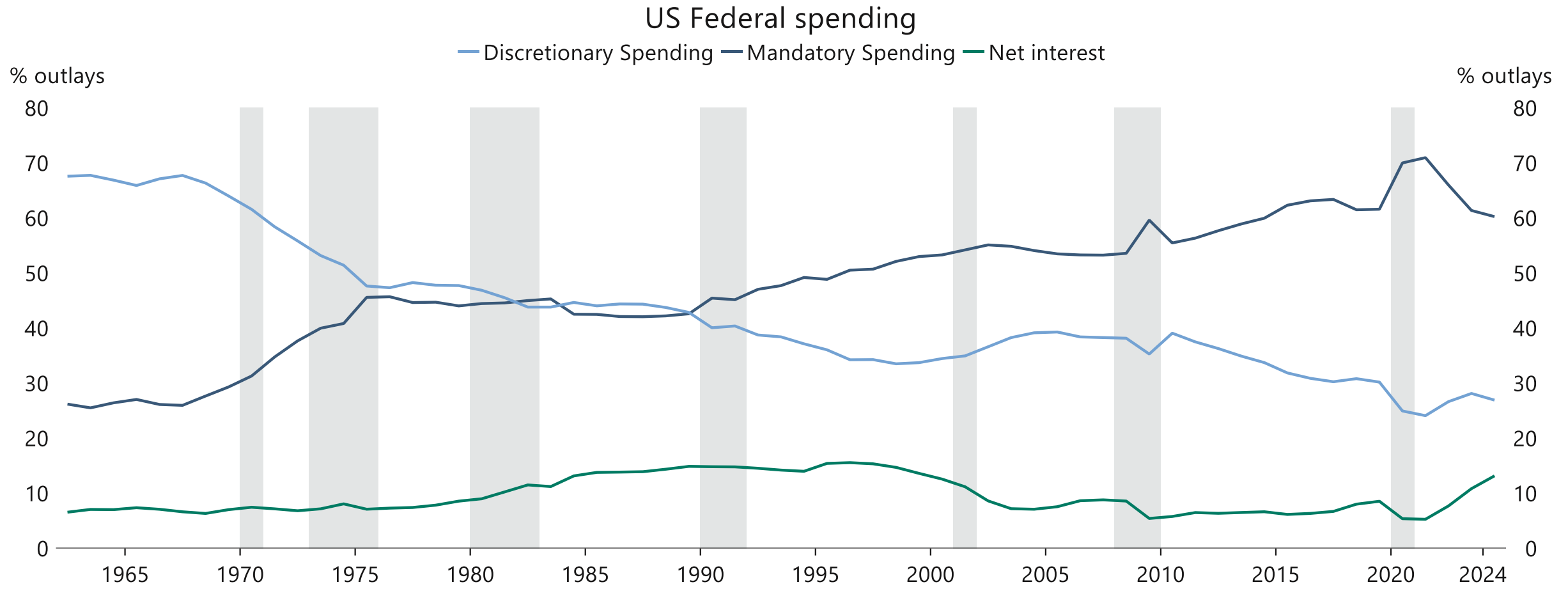
OMB forecasts 5% budget deficit every year for the next 10 years

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%

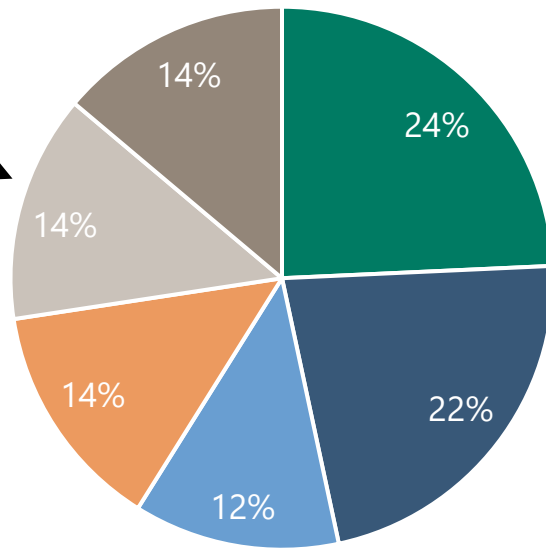


Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

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

Total government spending

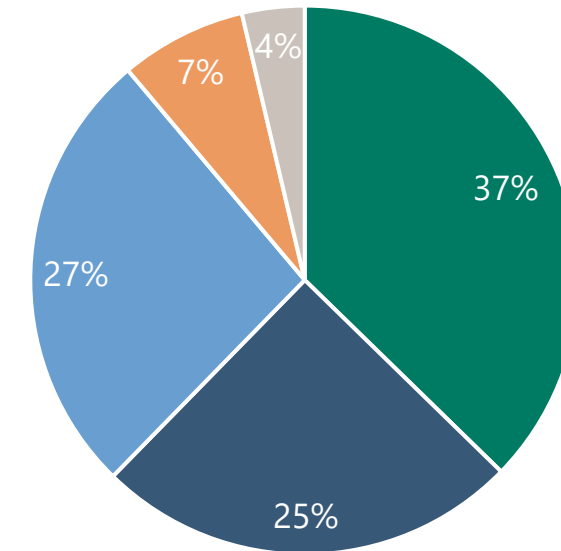
Net interest
payments



- Medicare & Medicaid
- Social security
- Defense
- Non-defense disc.
- Net interest
- Other

Sources of financing

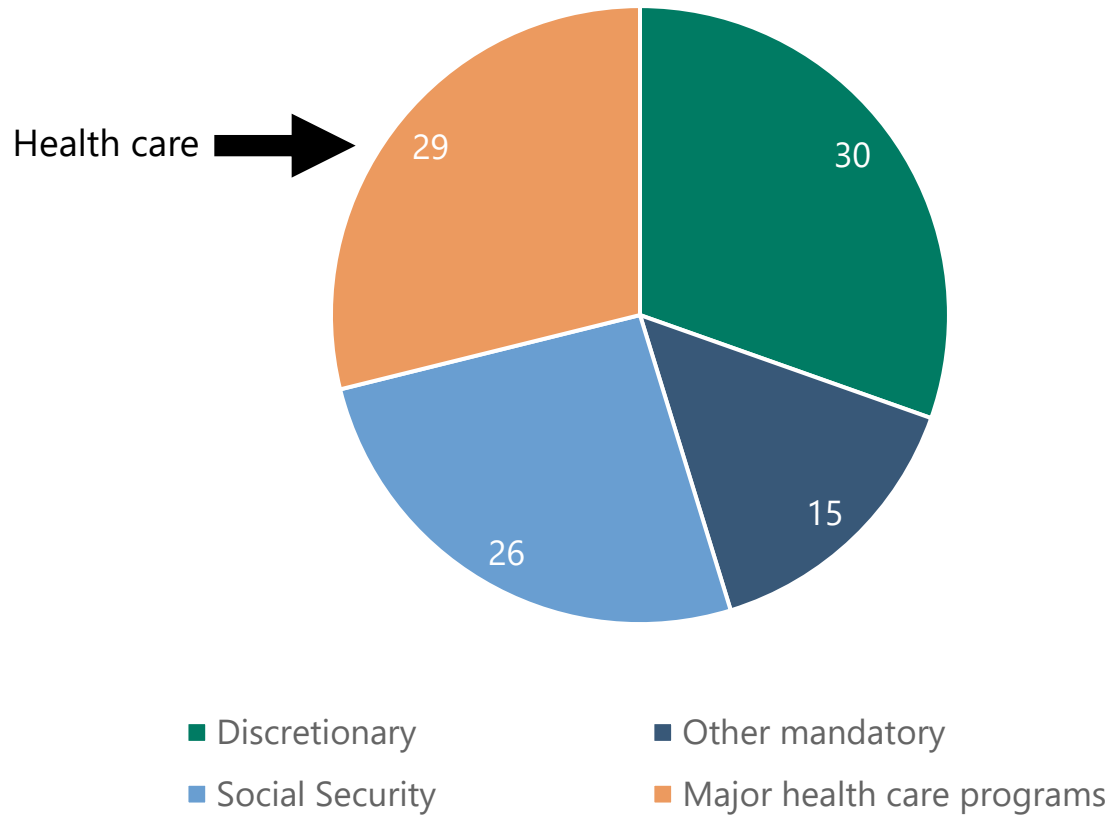
Borrowing



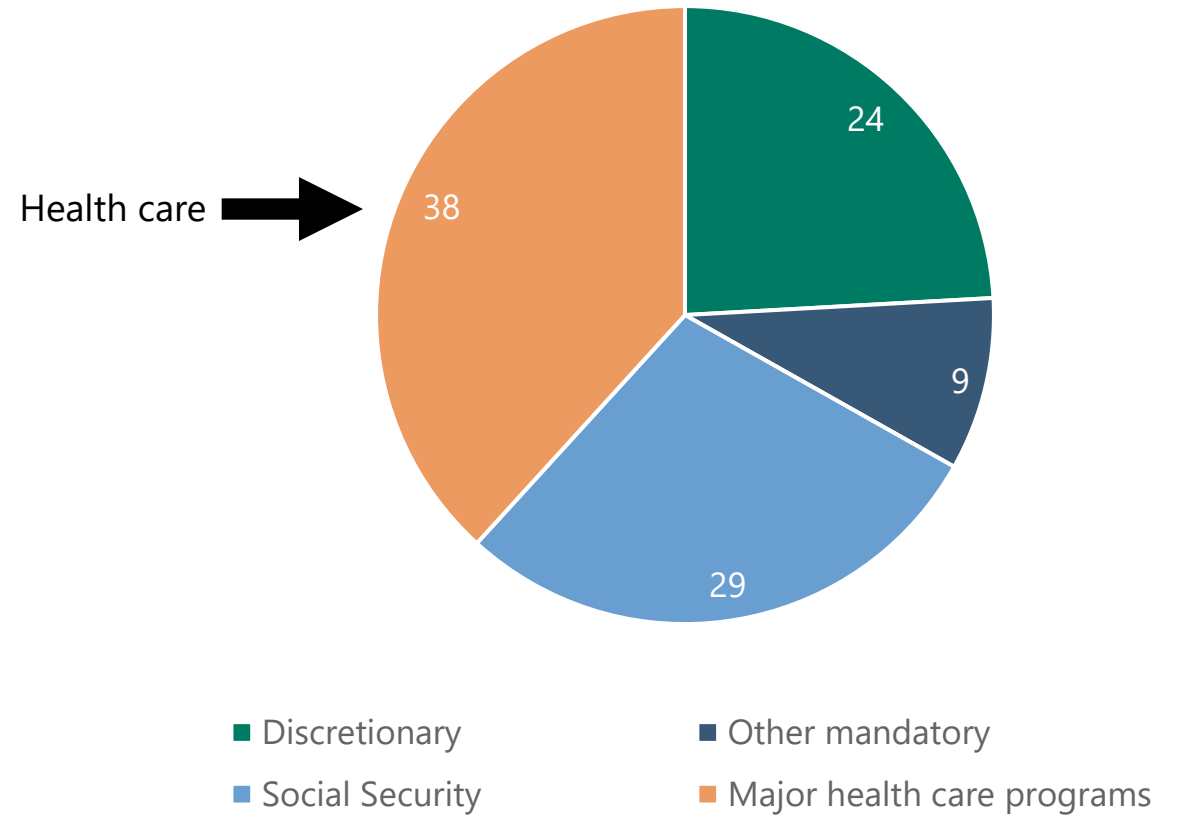
- Income
- Social insurance
- Borrowing
- Corporate
- Other

CBO: Non-interest outlays distribution: Healthcare is more and more important

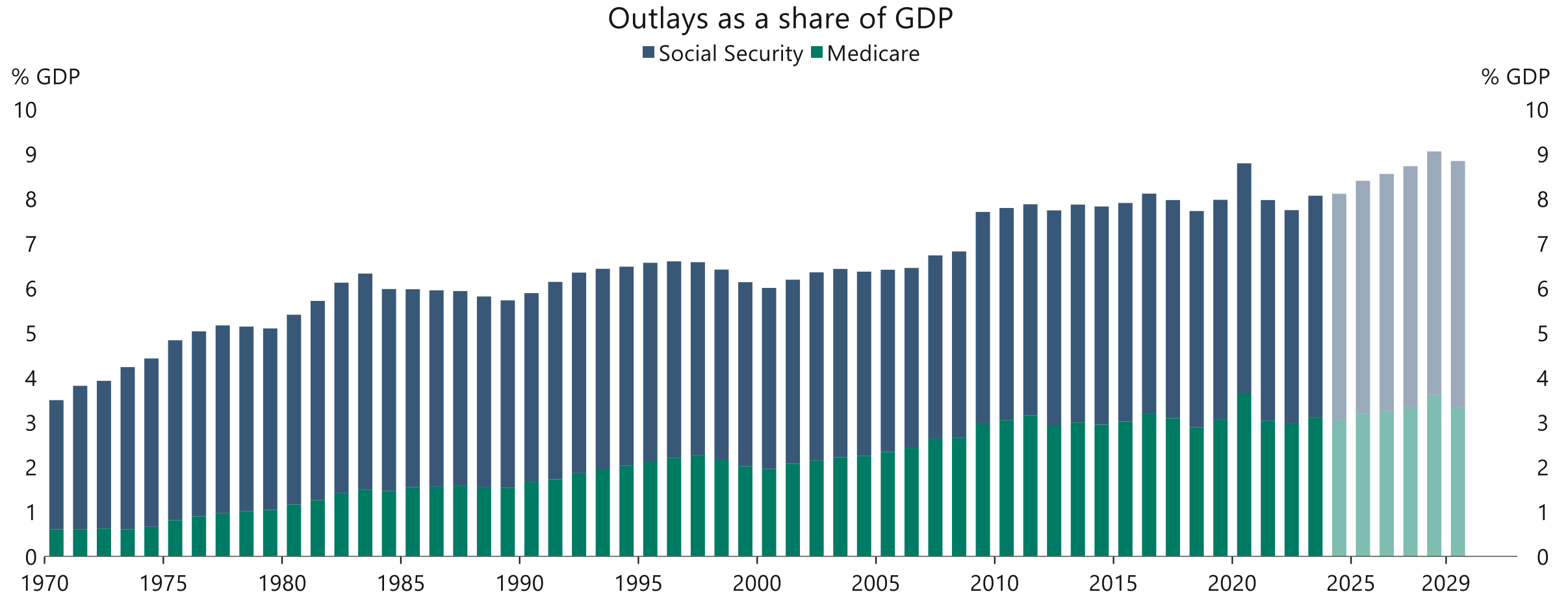
Total non-interest outlays, 2025



Total non-interest outlays, 2055

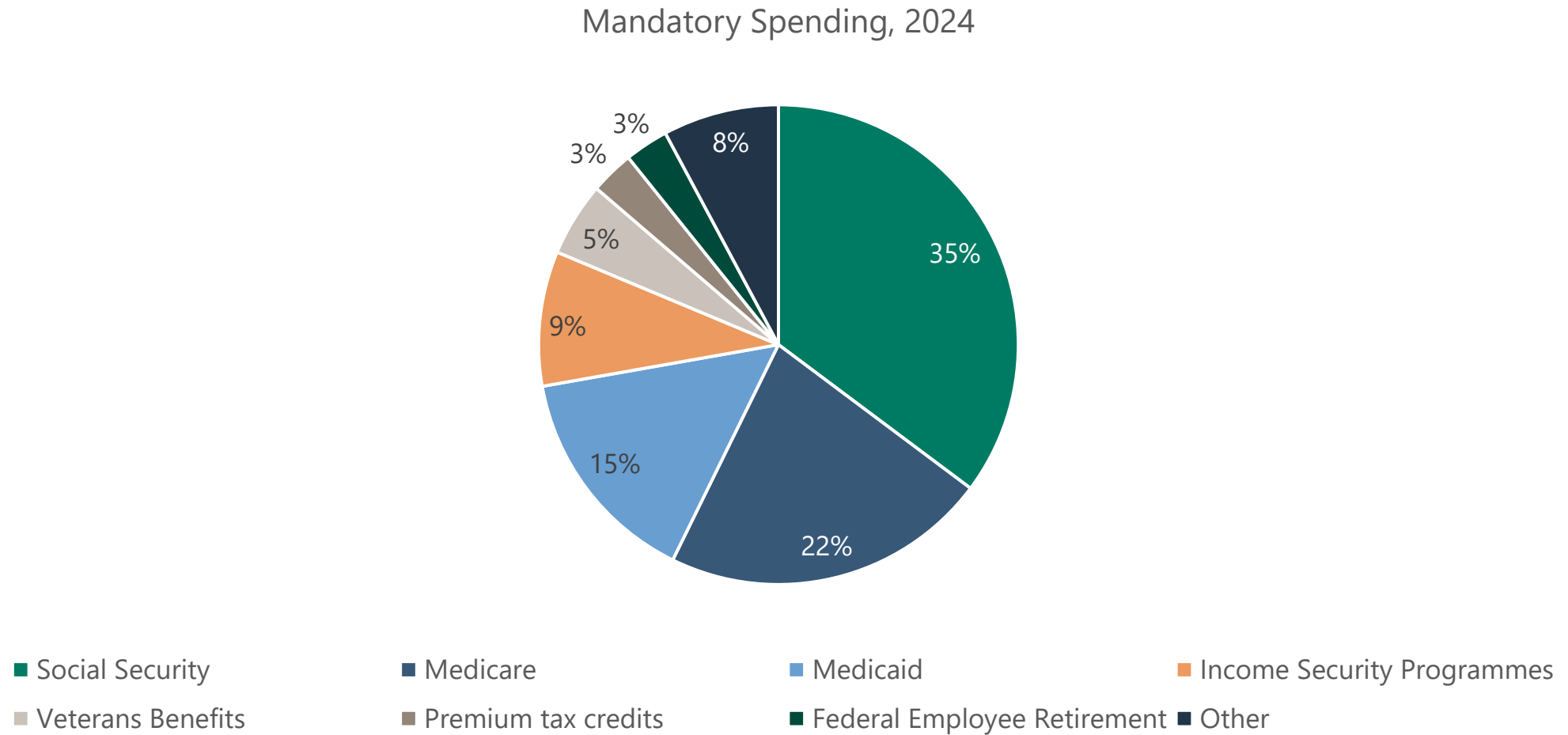


Budget pressures from an ageing population: Spending on Social Security and Medicare rising to 9% of GDP

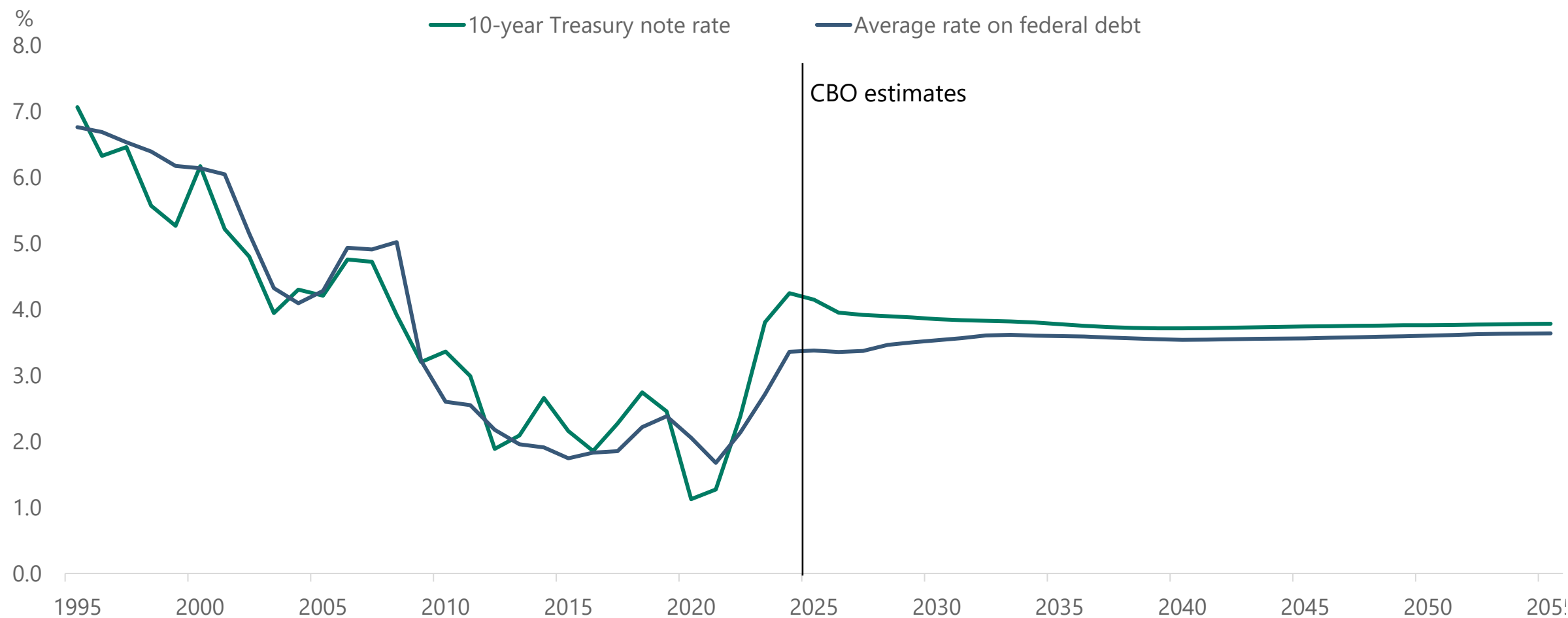


Source: U.S. Office of Management & Budget, Macrobond, Apollo Chief Economist

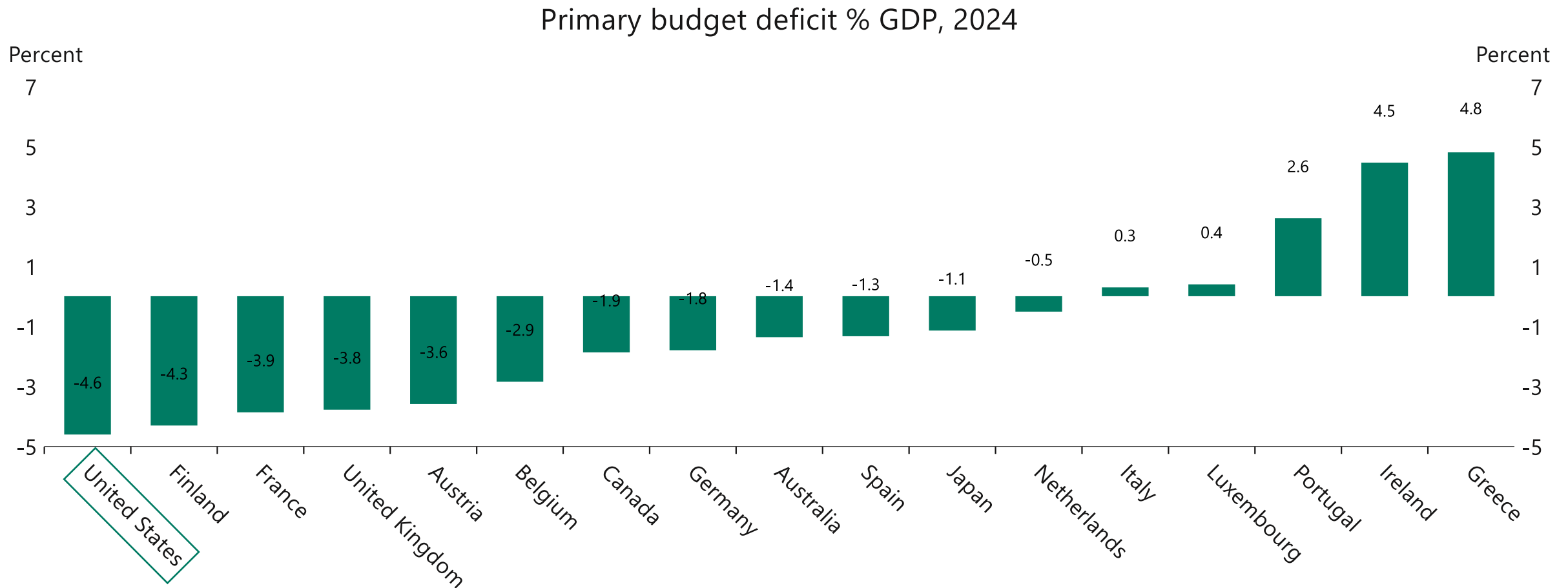
Social security, Medicare and Medicaid make up 70% of mandatory spending



CBO interest rate assumptions



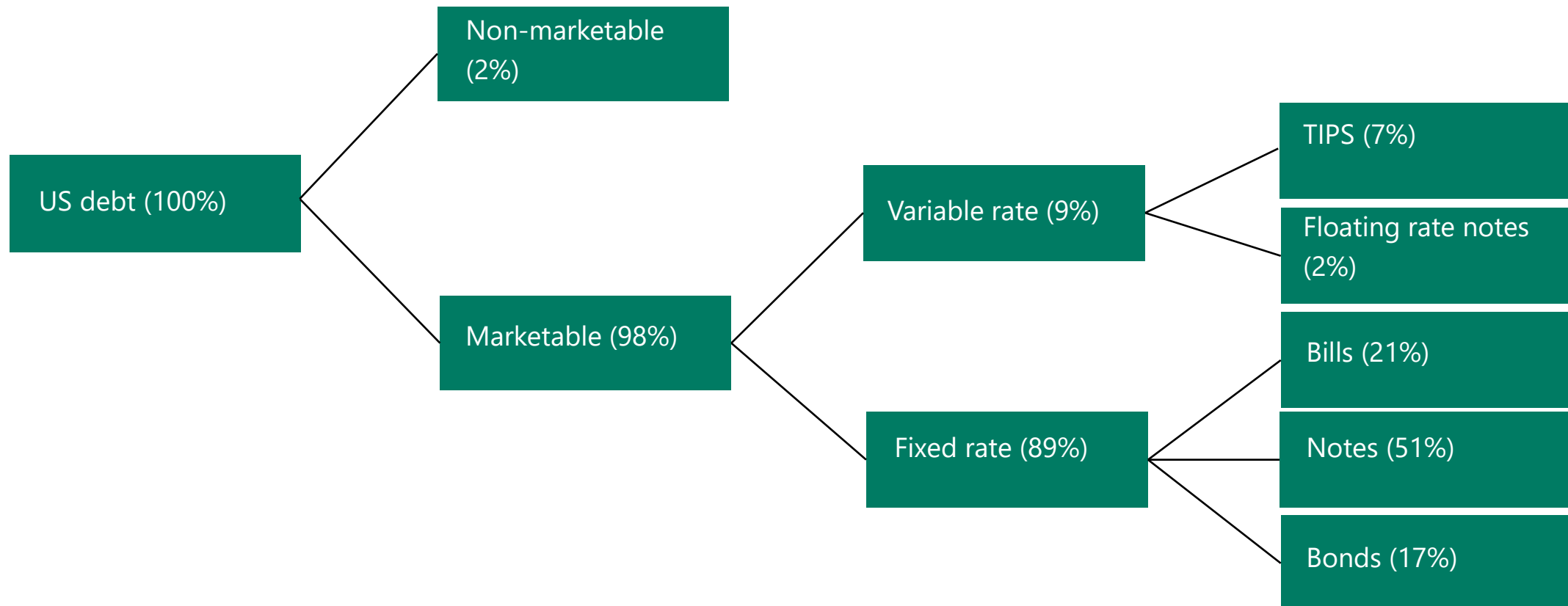
The US has a bigger primary budget deficit than many other countries



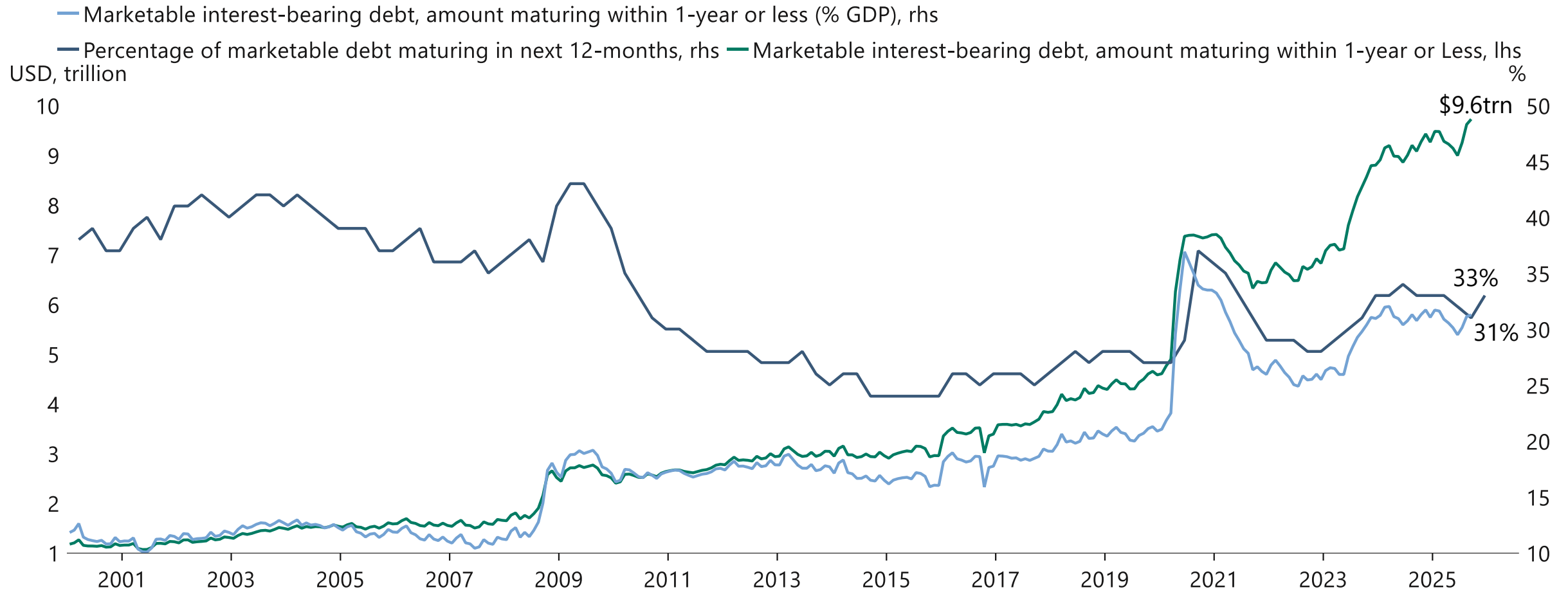
Source: International Monetary Fund (IMF), Macrobond, Apollo Chief Economist. Note: Primary budget deficit = budget deficit excluding interest payments.

The maturity structure of US government debt

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

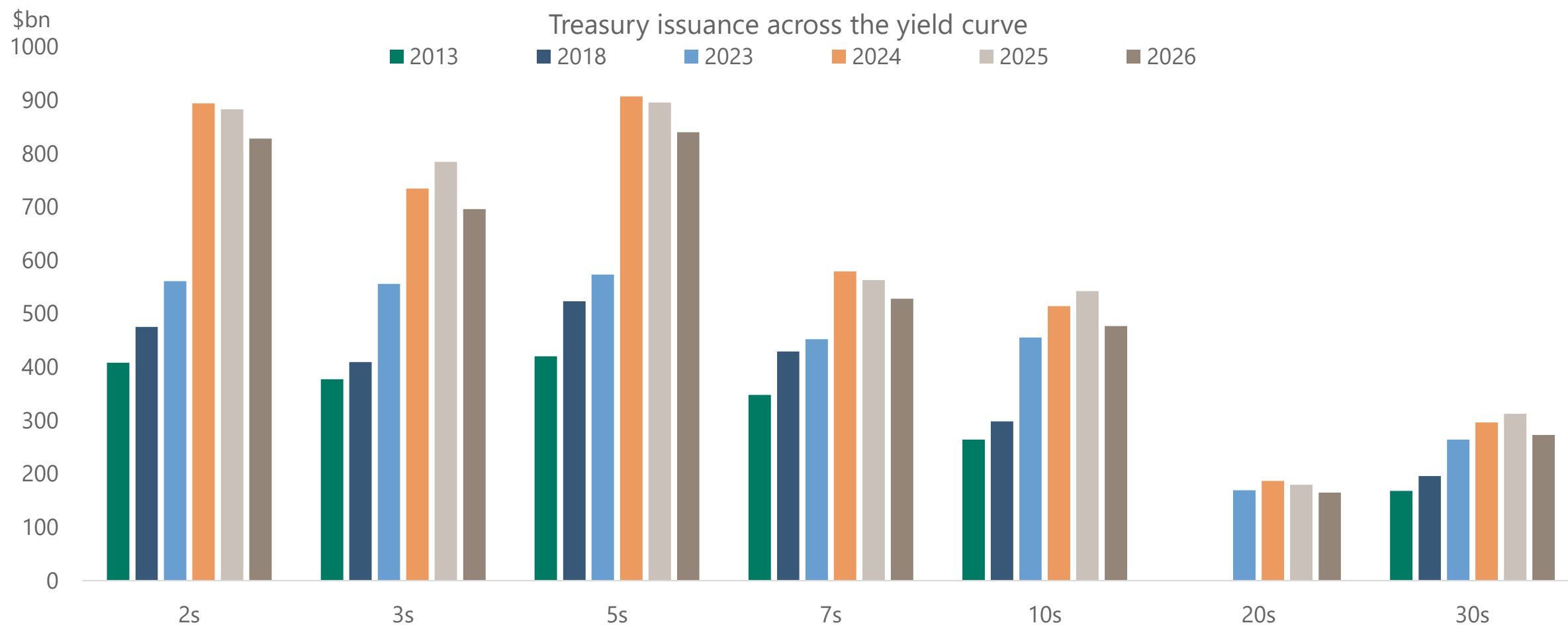


\$10trn of government debt will mature over the next year, which is 33% of all debt outstanding

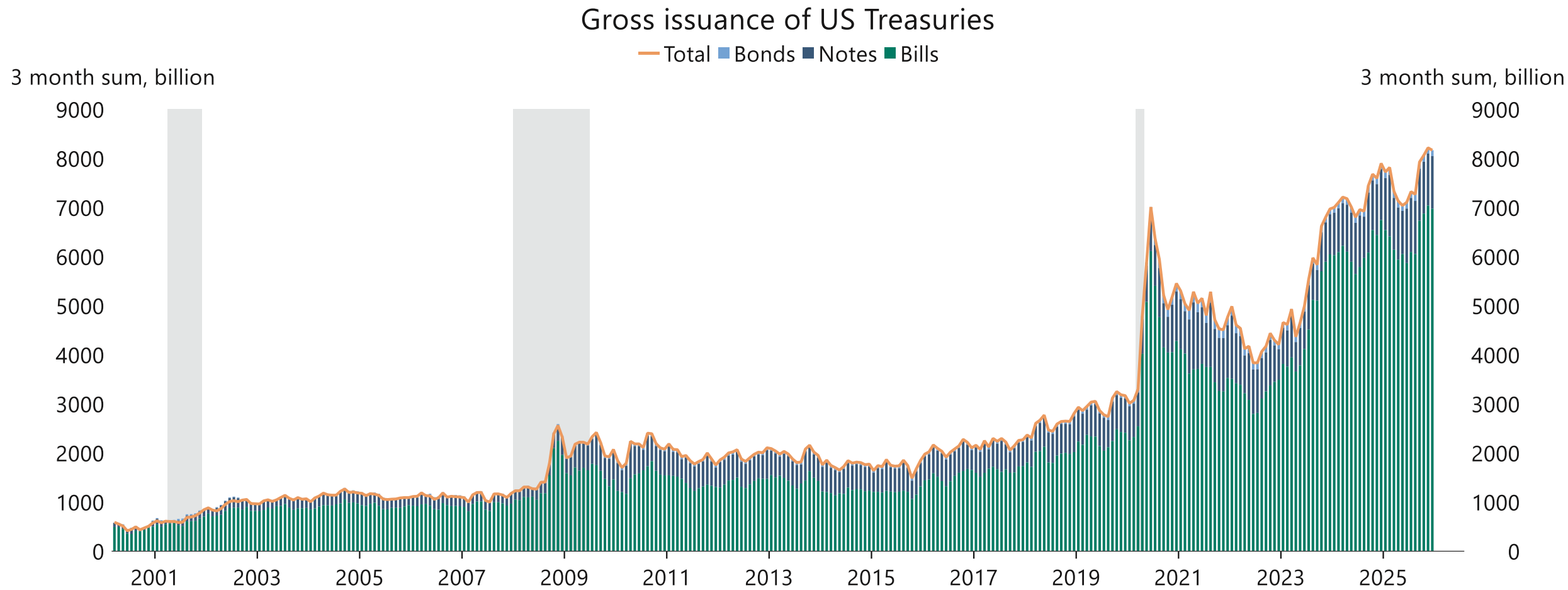


Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Treasury auction sizes have increased on average 30% across the yield curve since 2023

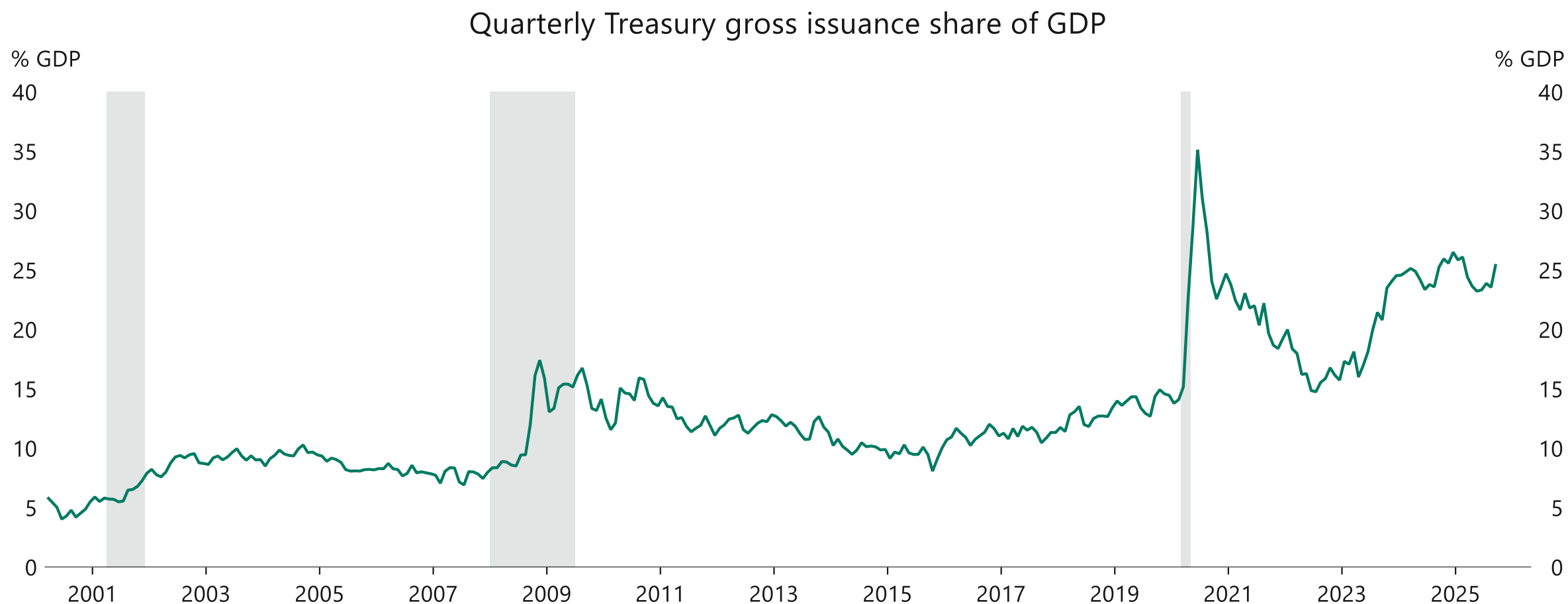


Gross issuance of Treasuries: \$8trn



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

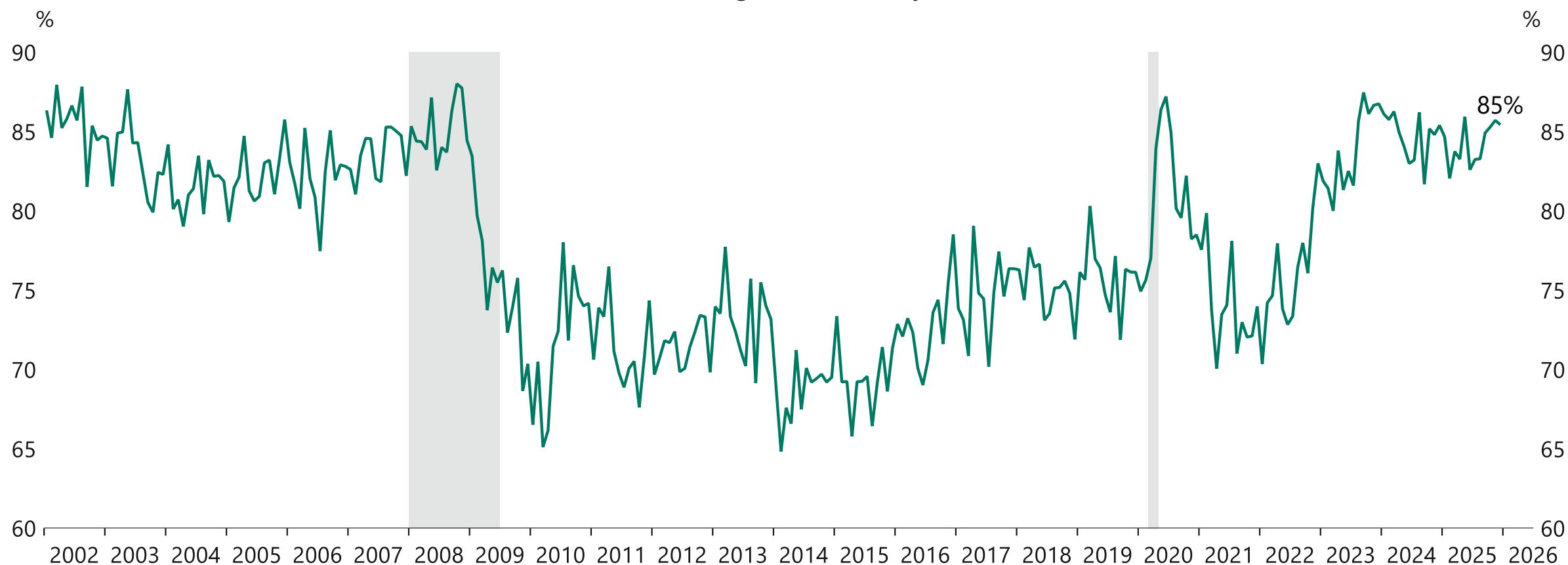
Quarterly gross Treasury issuance as a share of nominal GDP



Source: SIFMA, BEA, Macrobond, Apollo Chief Economist

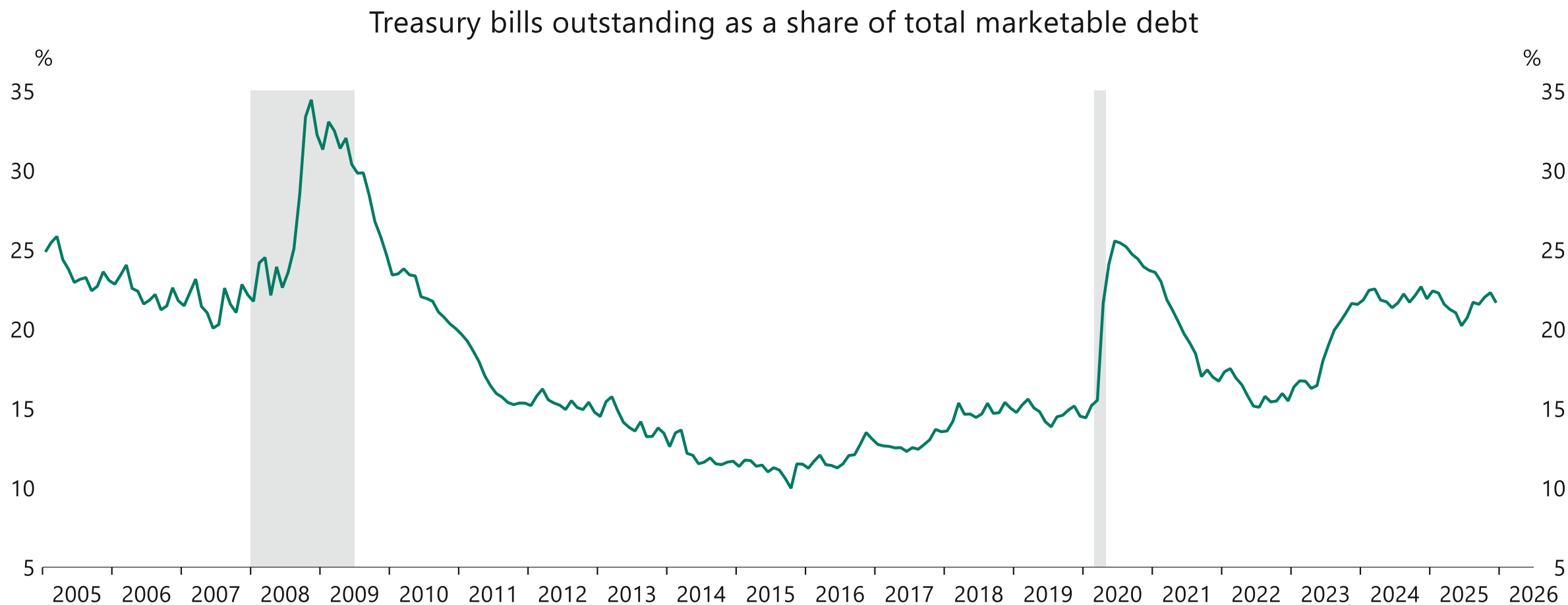
High share of Treasury gross issuance is T-bills

T-Bills share of gross Treasury issuance



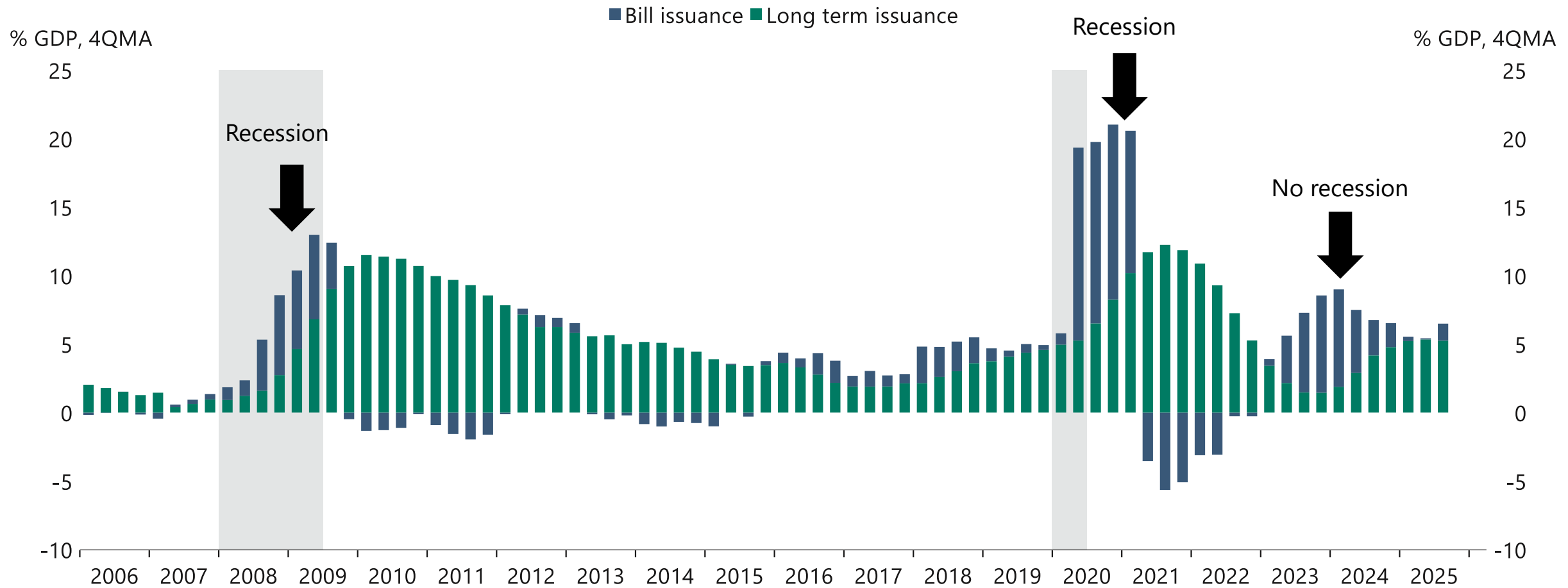
Source: SIFMA (Securities Industry & Financial Markets Association), Macrobond, Apollo Chief Economist

Share of T-bills outstanding has increased



Source: U.S. Department of Treasury, 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

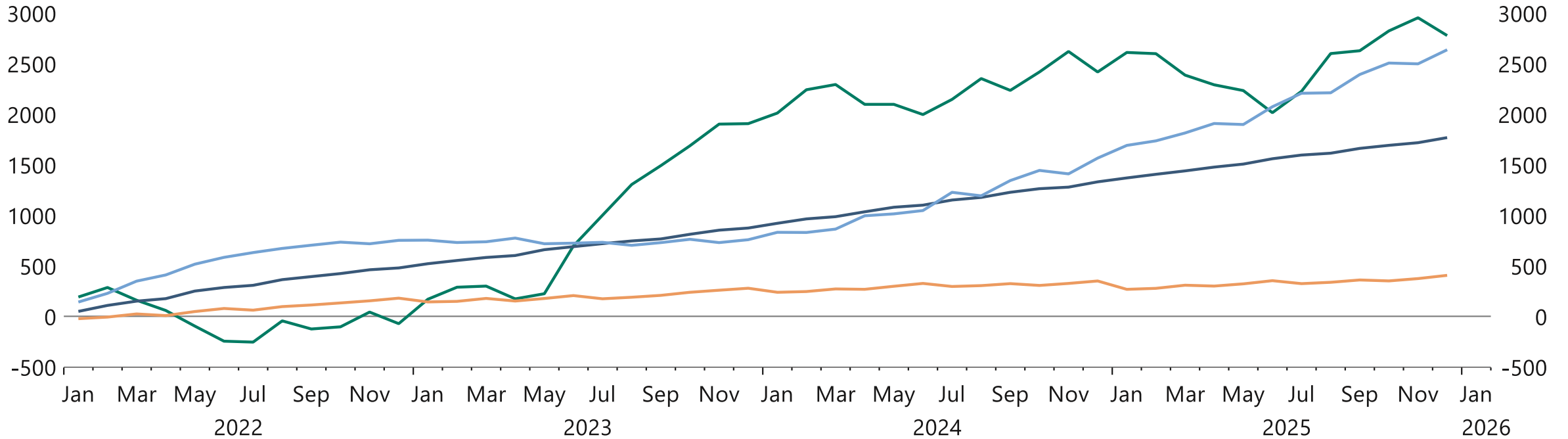
Significant increase in the supply of T-bills

Marketable Treasury securities outstanding

Treasury Inflation-Protected Securities Notes Bonds Bills

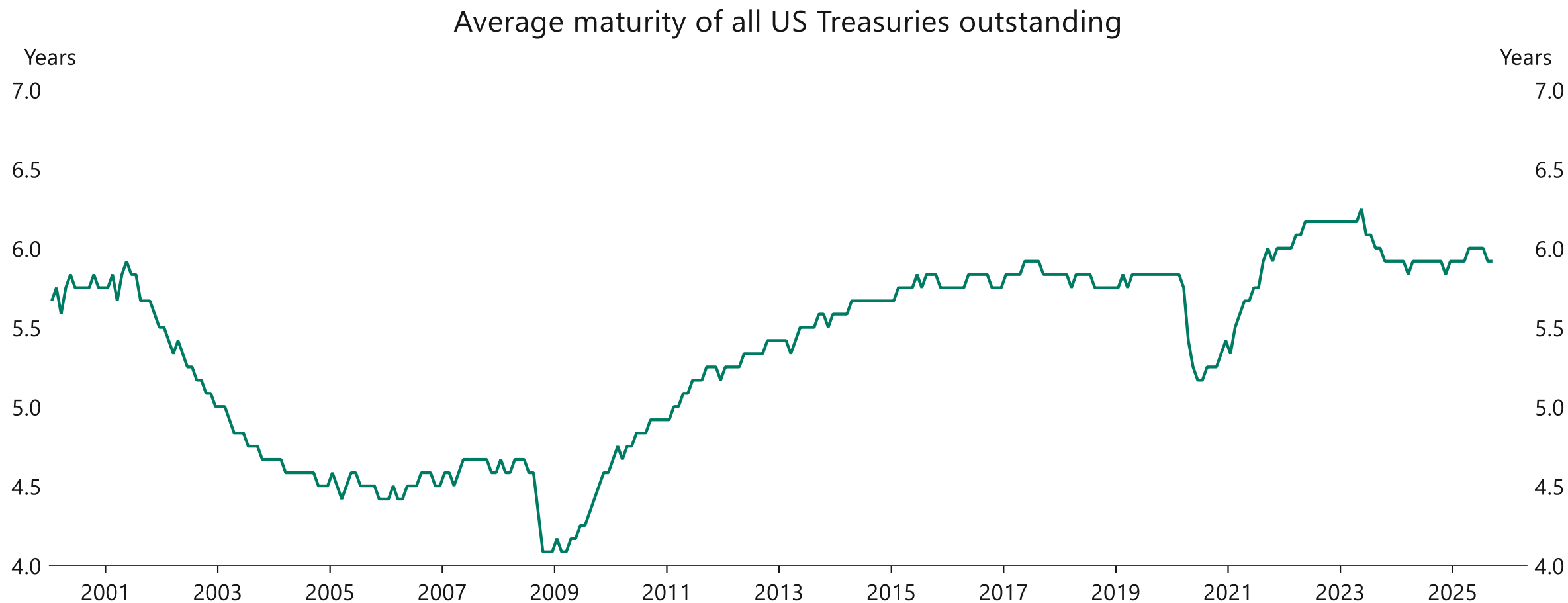
USD,
change since
Jan 22, billion

USD,
change since
Jan 22, billion



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

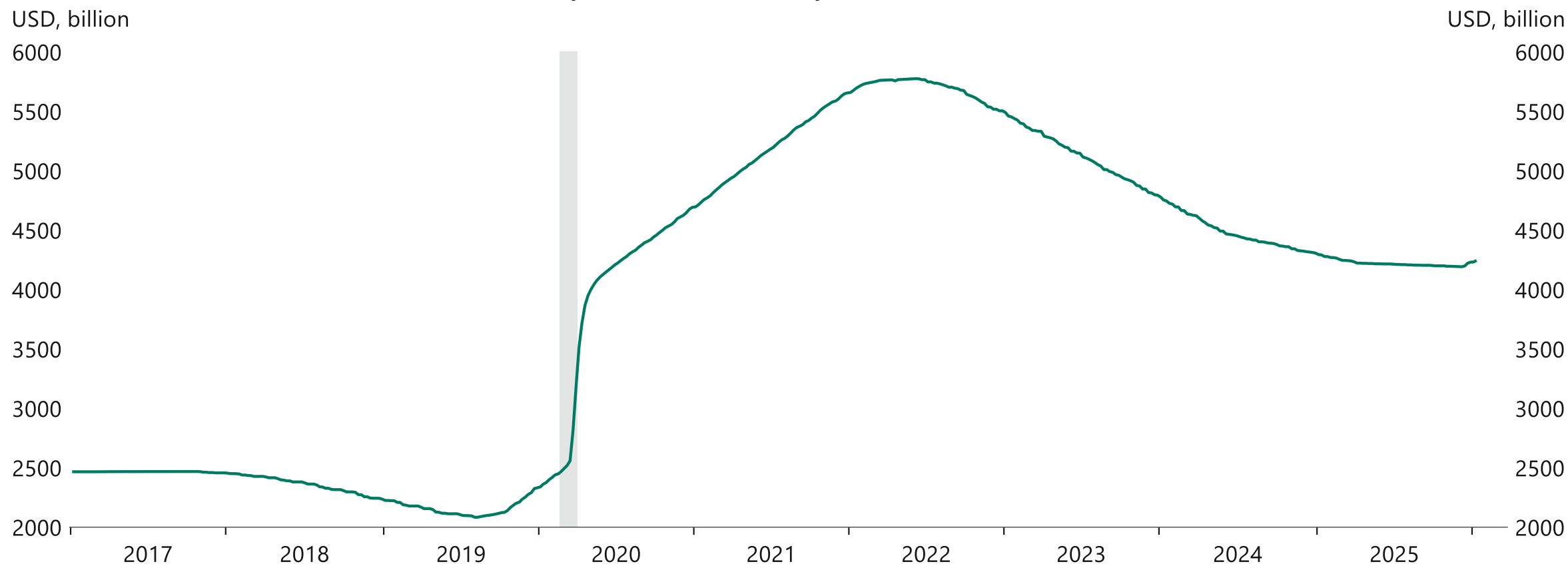
Weighted average maturity of debt outstanding



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

Treasury supply also impacted by Fed QT and QE

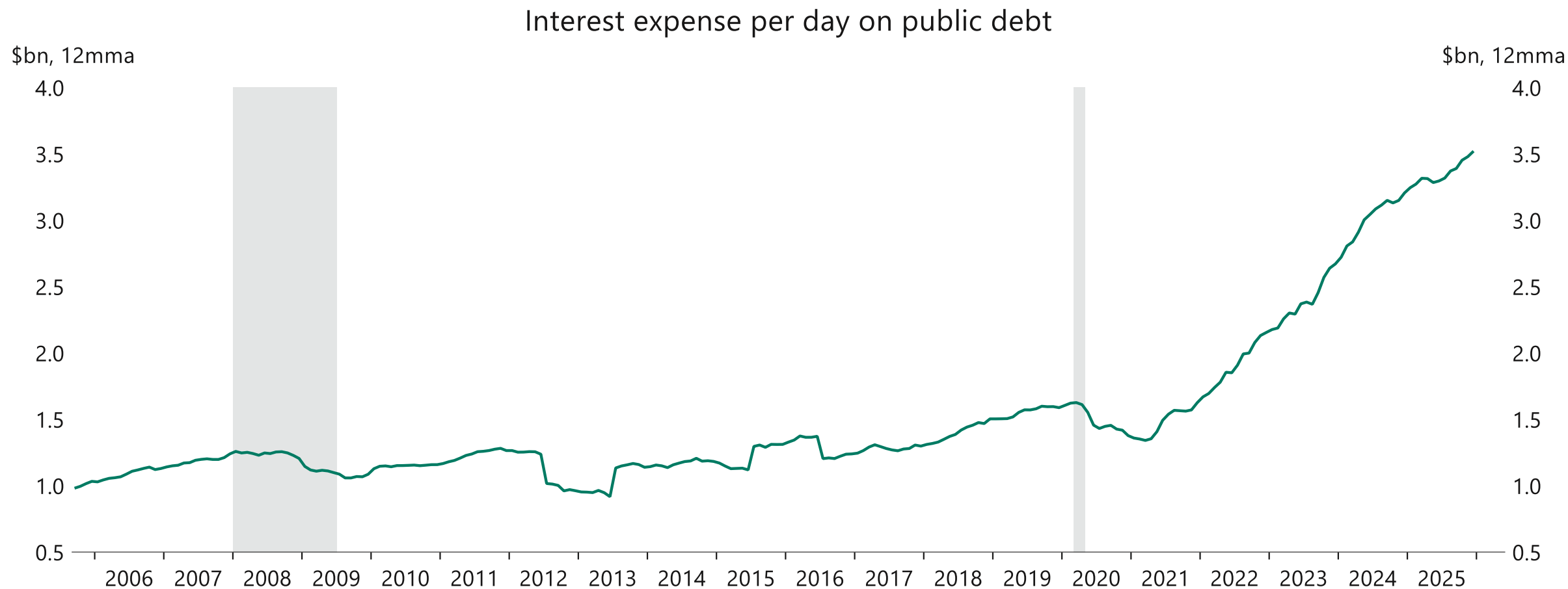
Treasury securities held by the Federal Reserve



Source: Federal Reserve, Macrobond, Apollo Chief Economist

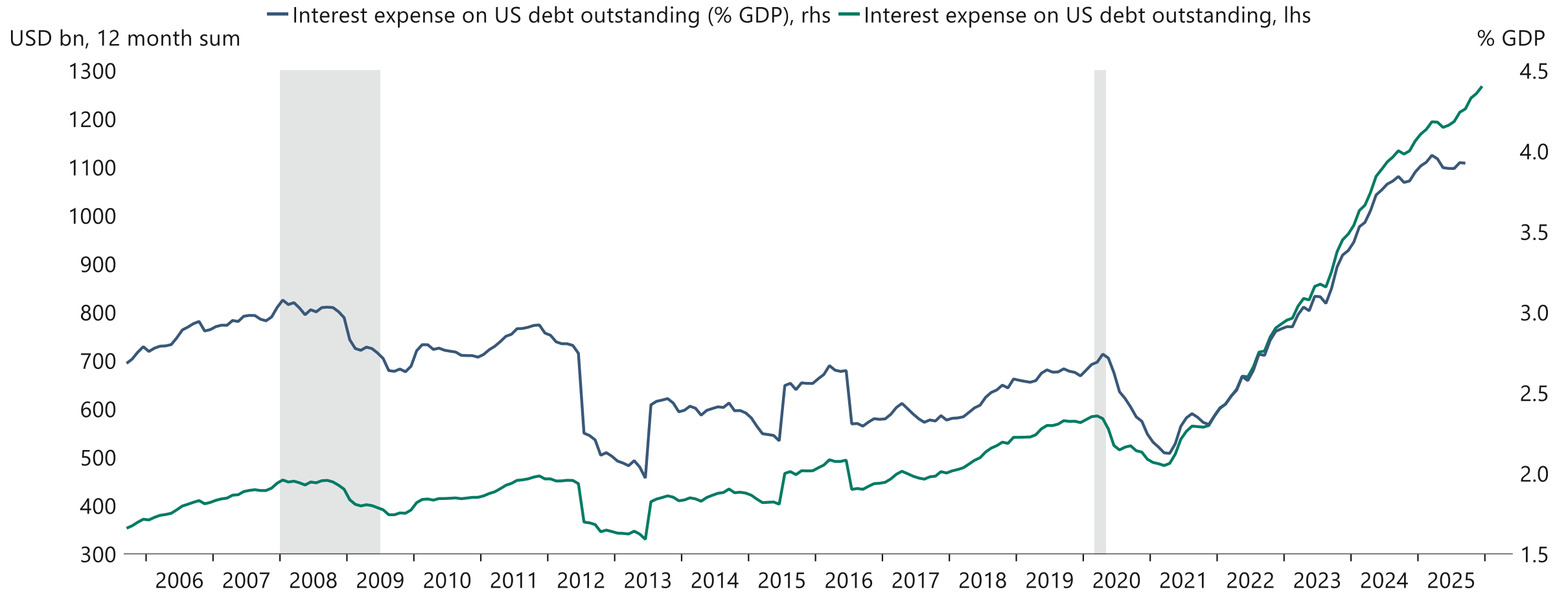
Debt servicing costs rising

Average federal net interest expense per day: \$3.5bn



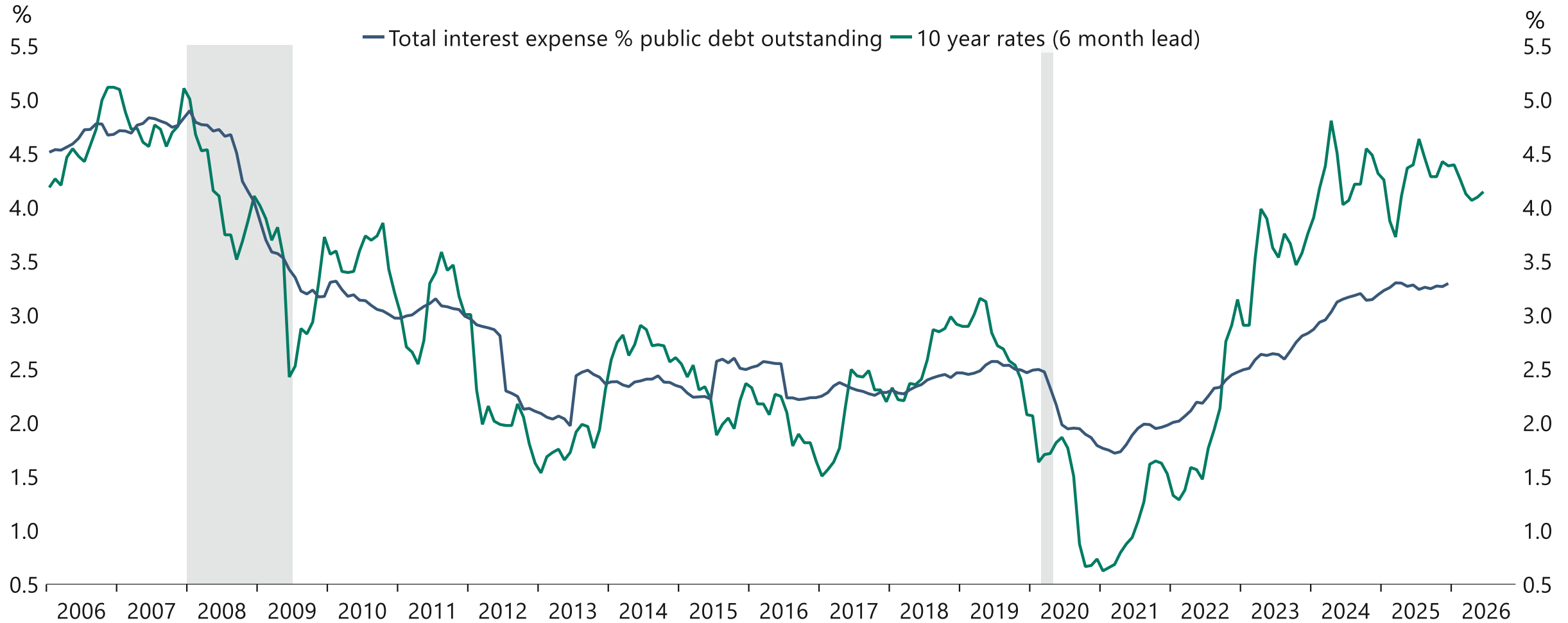
Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

US government paying \$1.2trn annually in debt servicing costs



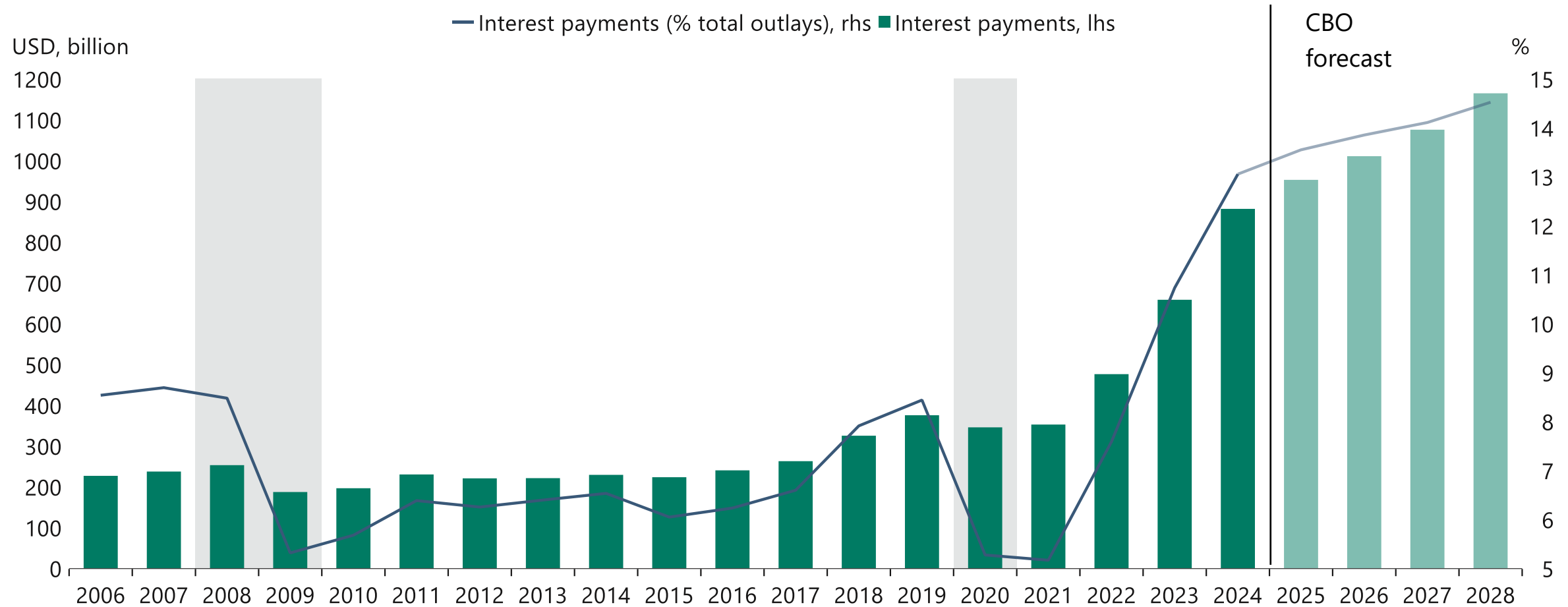
Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

Higher interest rates and higher debt levels putting upward pressure on debt servicing costs



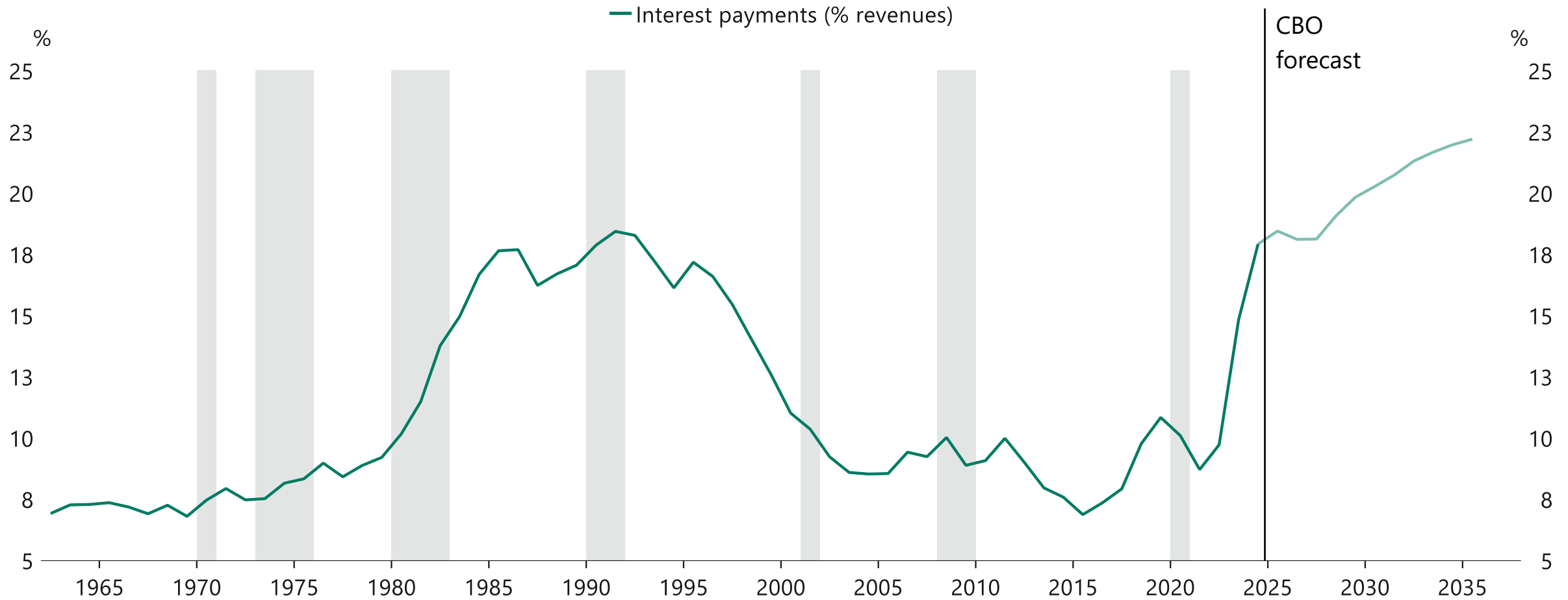
Source: Federal Reserve, Macrobond, Apollo Chief Economist

Net interest payments make up 14% of government spending



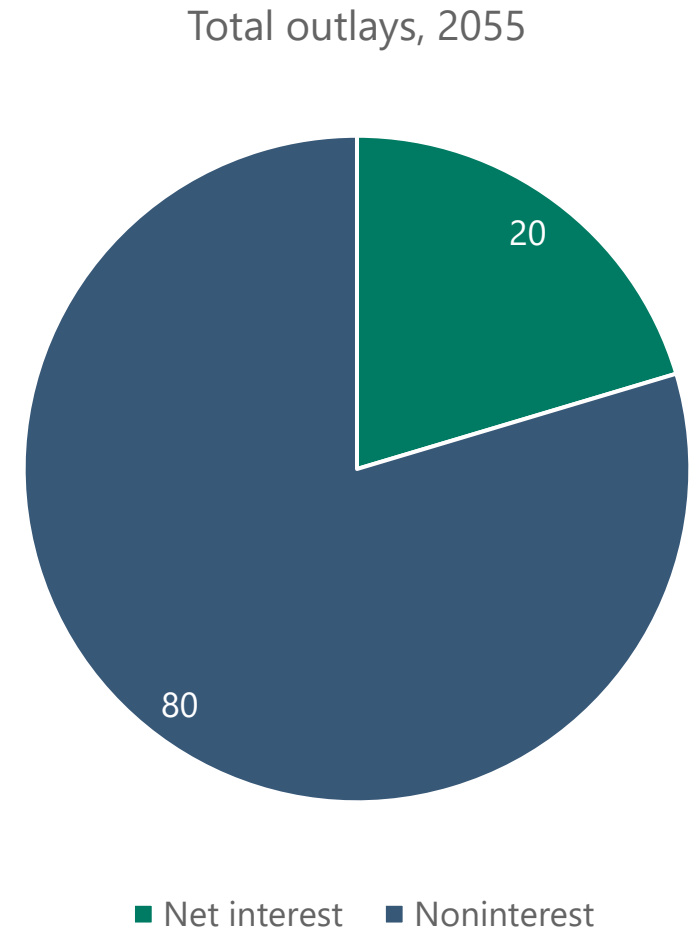
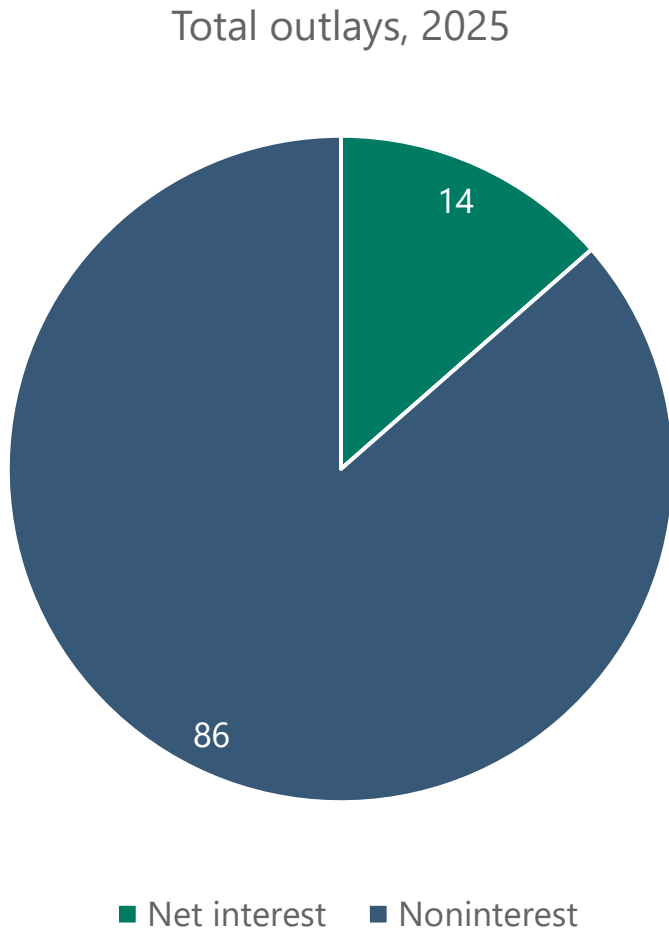
Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

For every 5 dollars the government collects in taxes 1 dollar goes to paying interest on debt



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

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



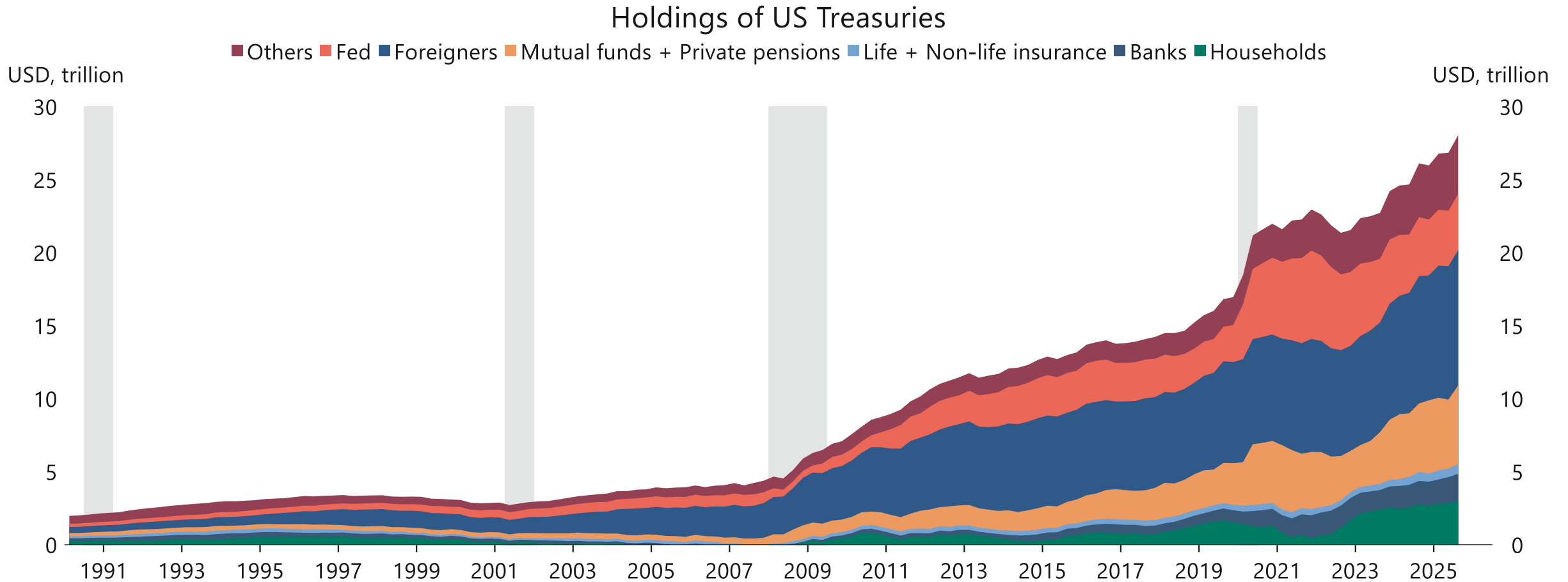
Interest expense on US government debt as a % of S&P 500 market cap



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

Who owns US government debt?

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

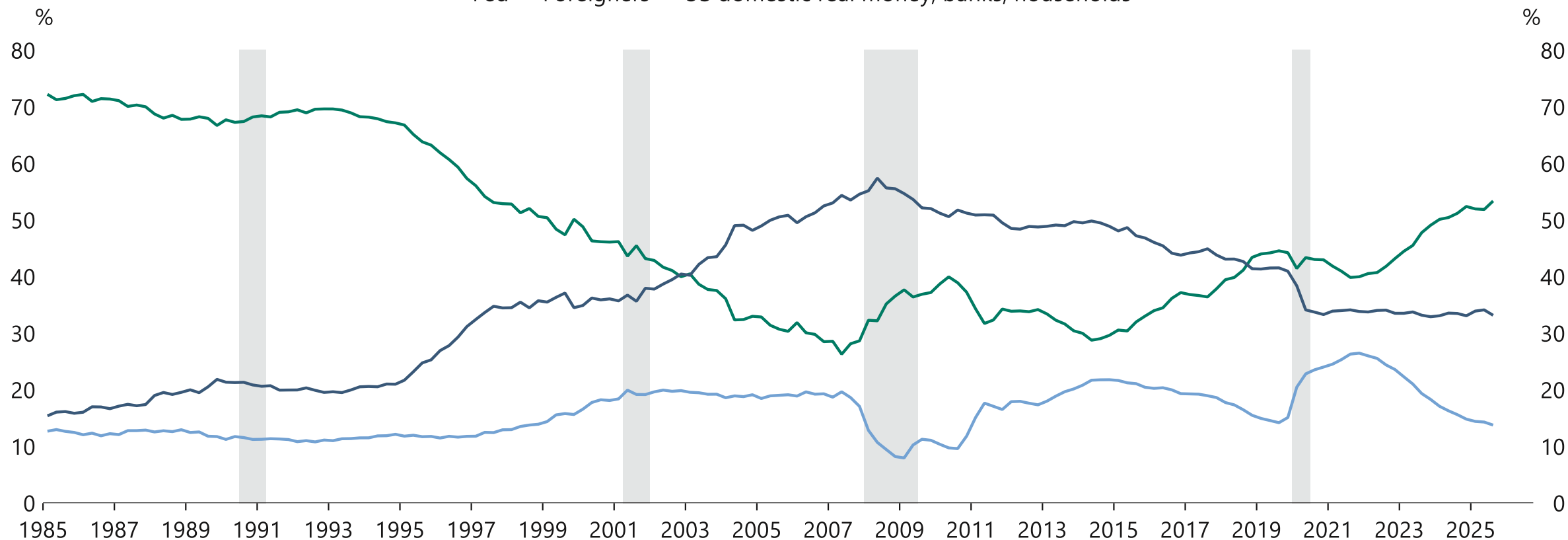


Source: Federal Reserve, Macrobond, Apollo Chief Economist

Domestic investors buying Treasuries. Foreign share basically constant.

Holdings of US Treasuries (% Treasury debt outstanding)

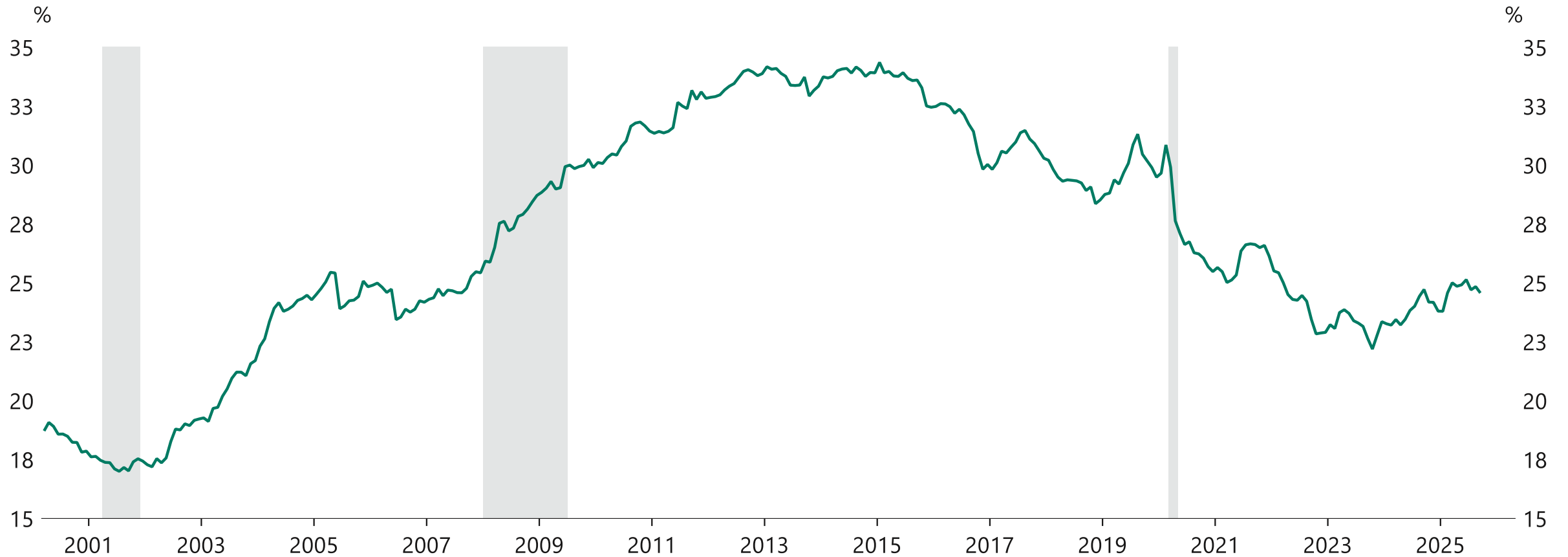
— Fed — Foreigners — US domestic real money, banks, households



Source: Federal Reserve, Macrobond, Apollo Chief Economist

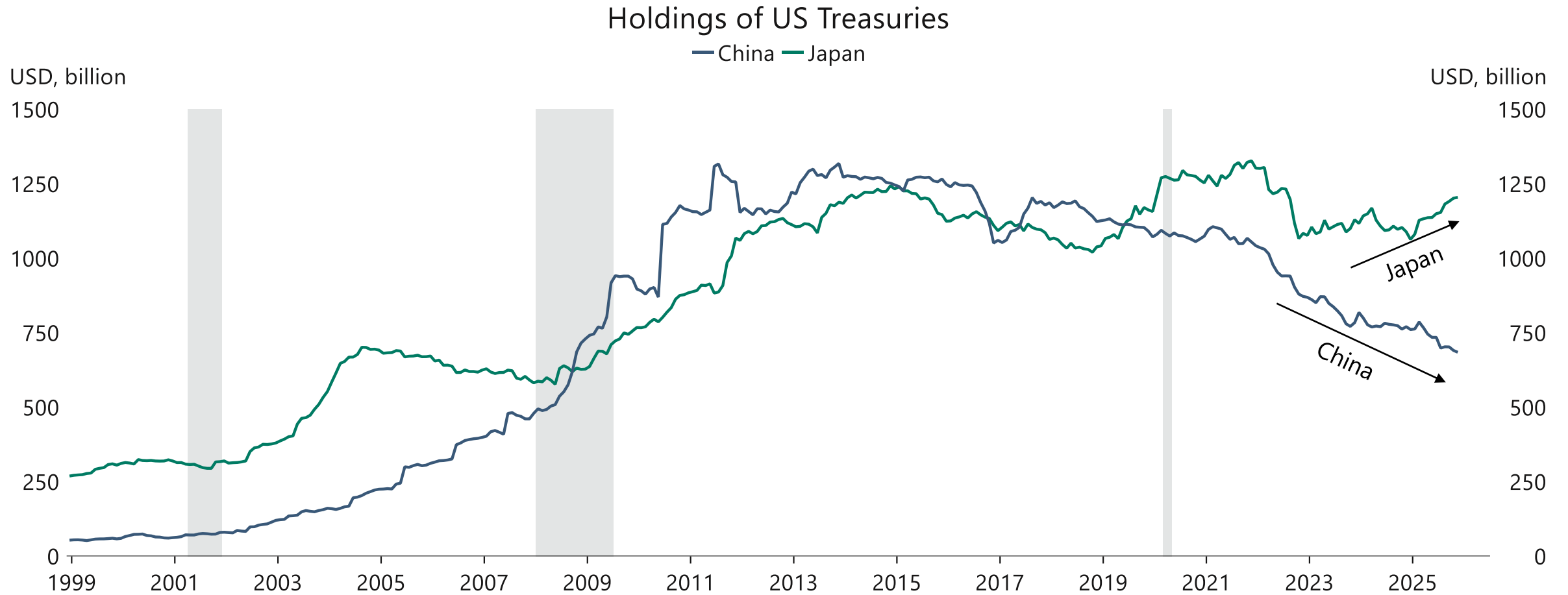
Small increase in foreign ownership of US government bonds since 2023

Foreign ownership of total US Treasuries outstanding



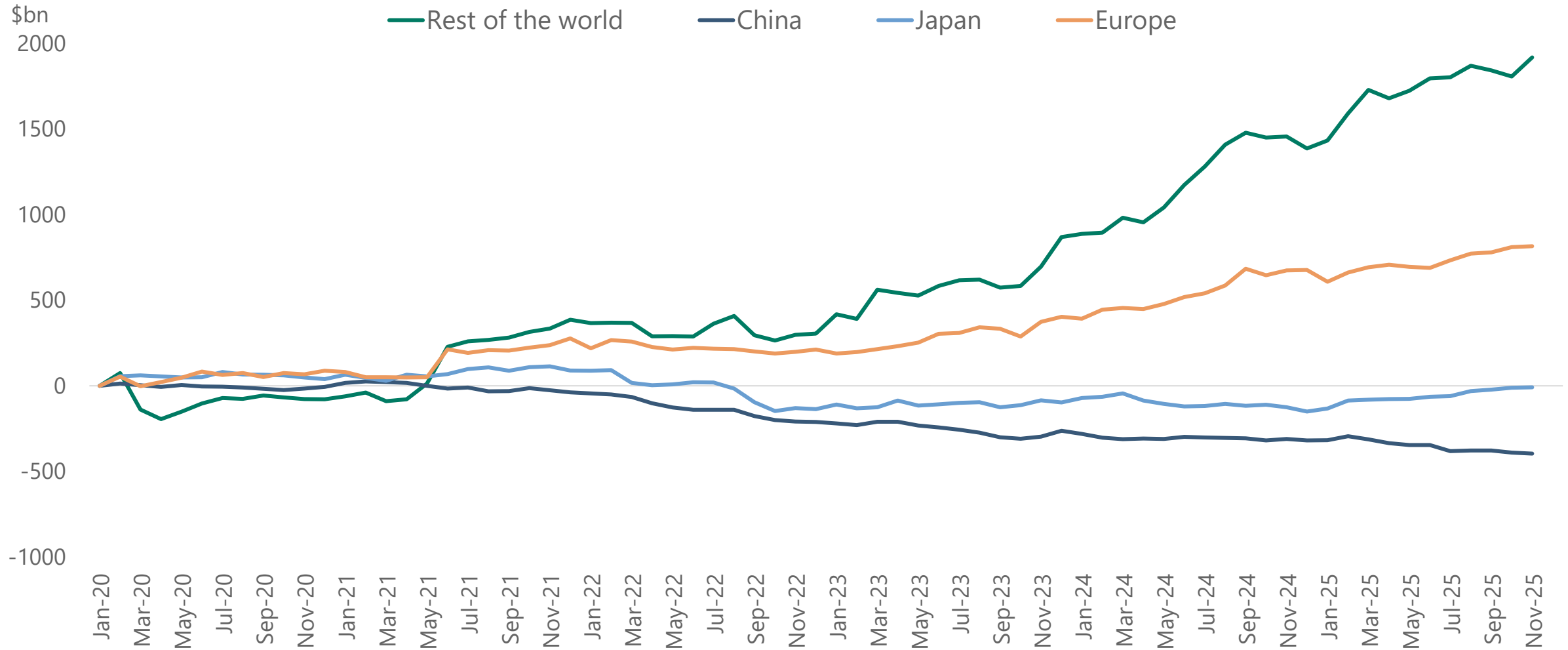
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Japanese and Chinese holdings of Treasury securities

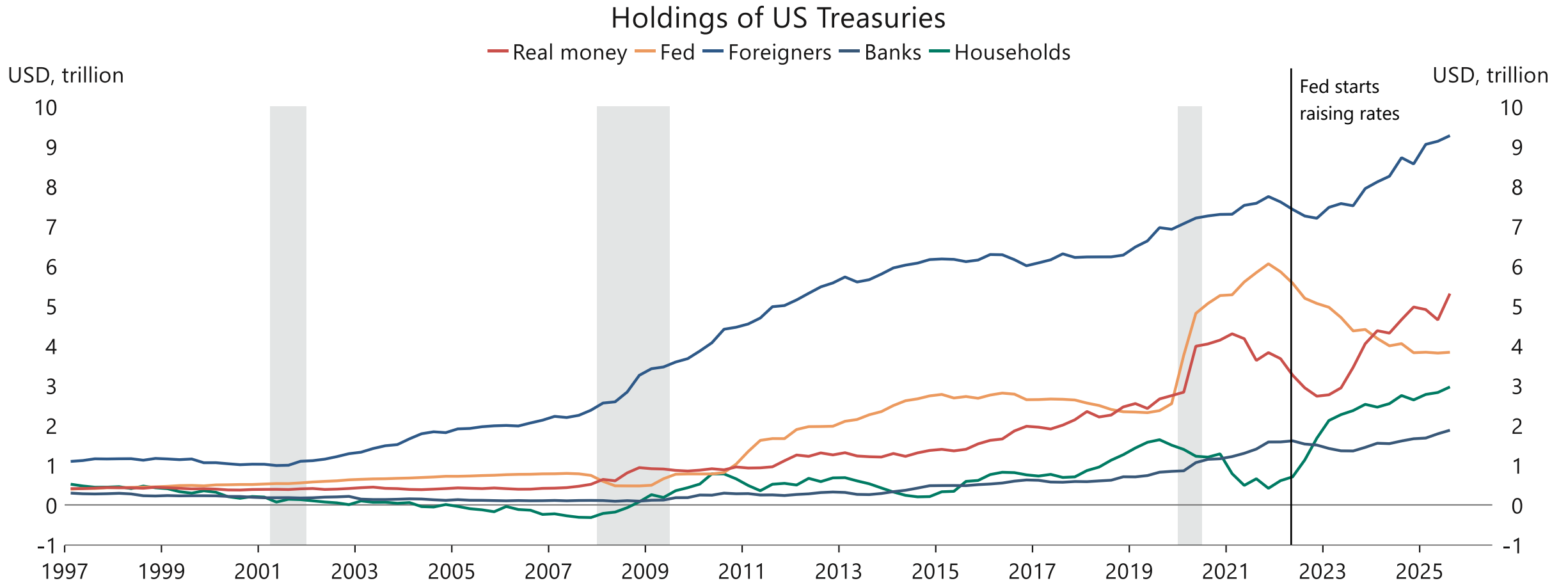


Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Europe has been a big buyer of Treasuries since January 2020



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



Source: Federal Reserve, Macrobond, Apollo Chief Economist

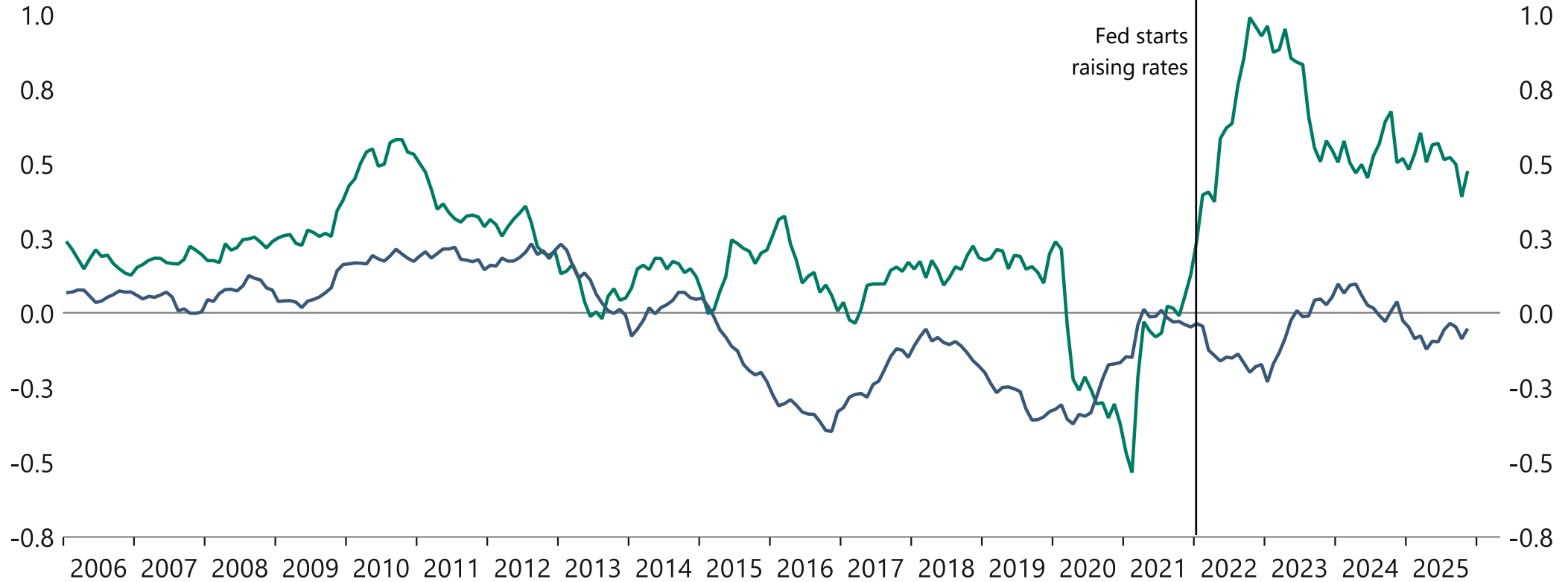
Foreign purchases of Treasuries come mainly from the private sector

Net Foreign Purchases: Treasury bonds and notes

— Official — Private

12 month sum, USD, trillion

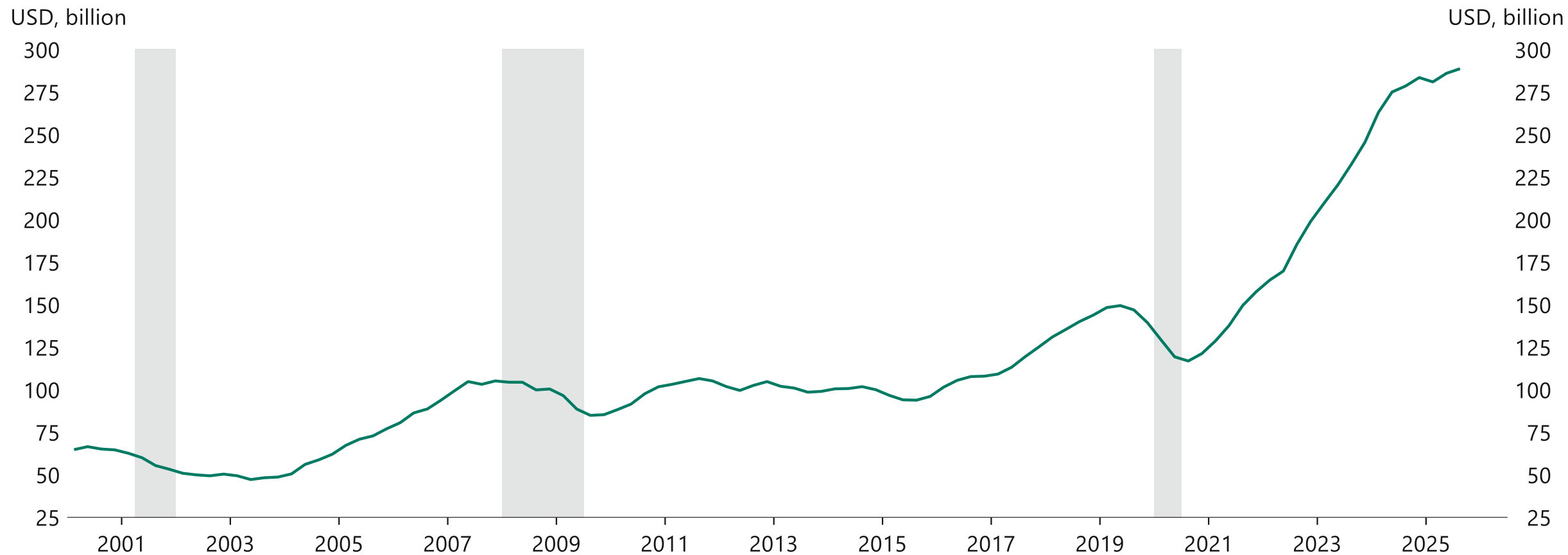
12 month sum, USD, trillion



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

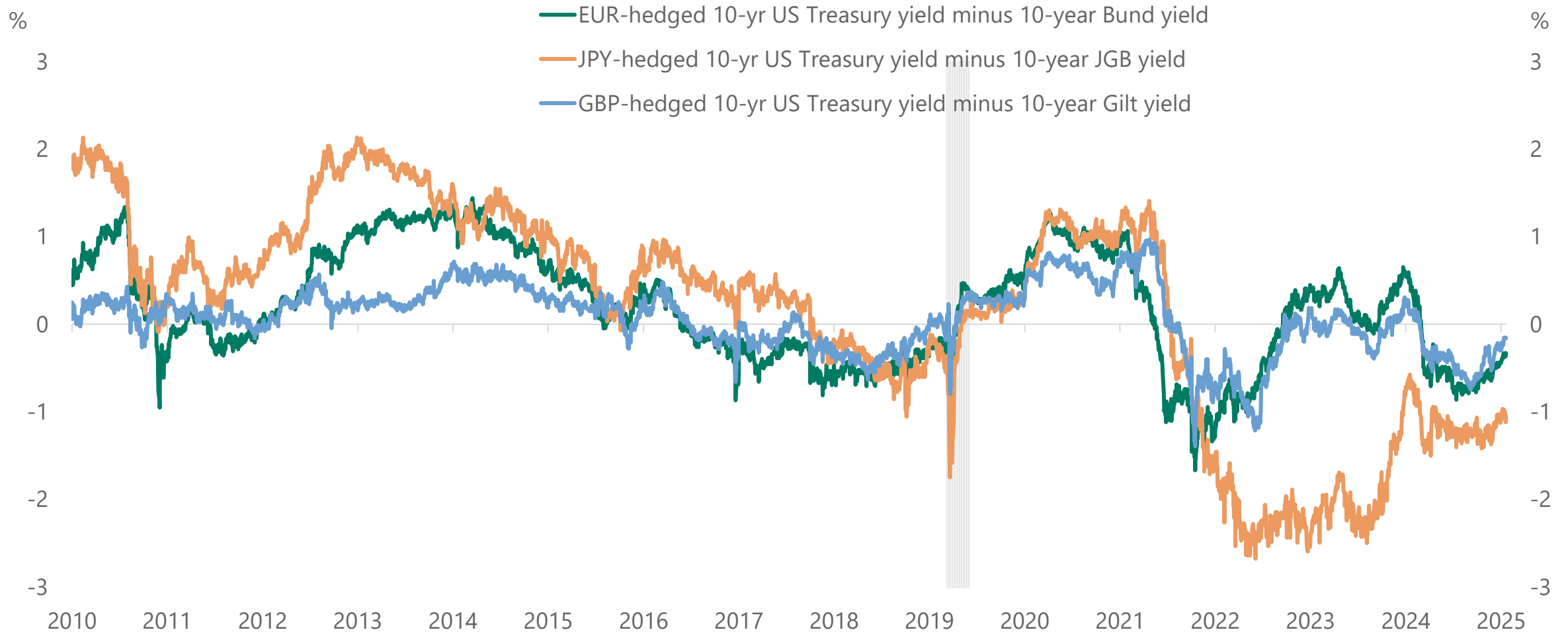
Total interest payments to foreigners rising

Federal government interest payments to foreigners



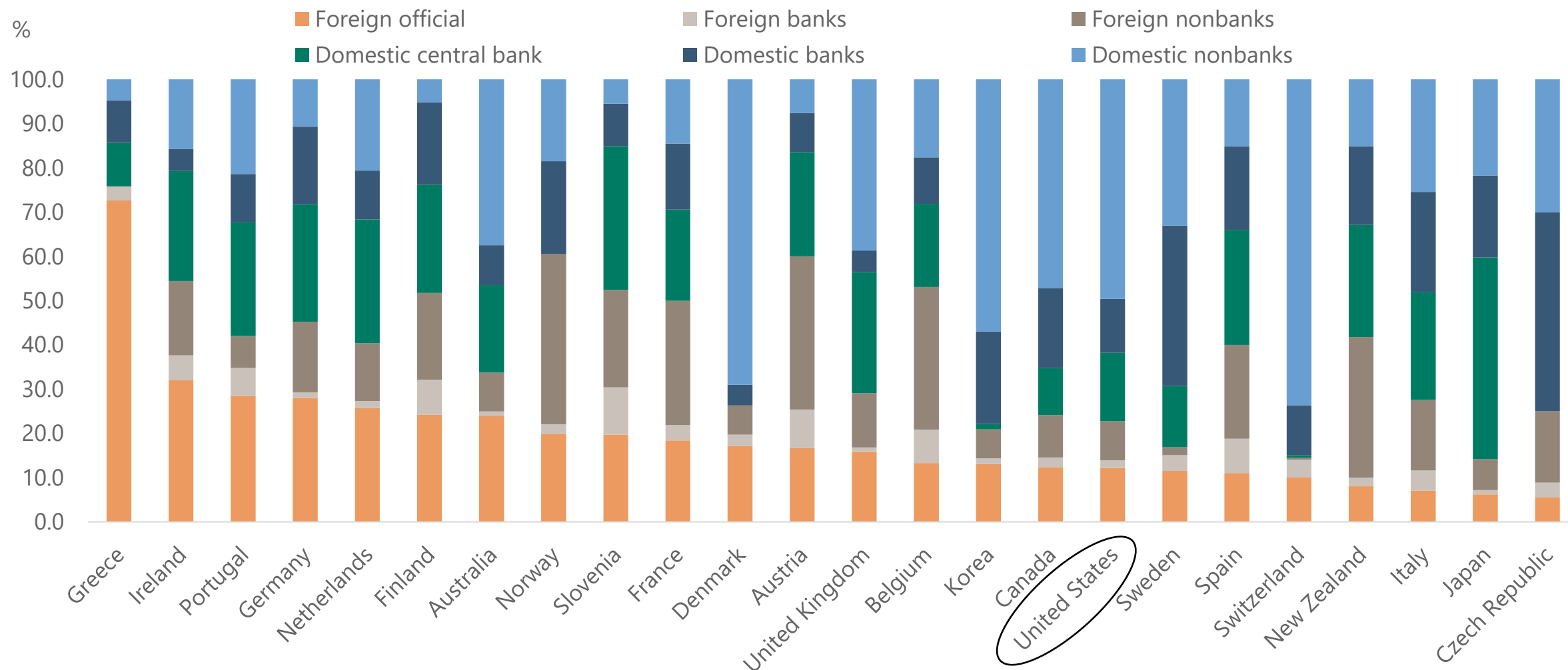
Source: U.S. Bureau of Economic Analysis (BEA), Macrobond, Apollo Chief Economist

Hedging costs are high for Japanese investors buying US Treasuries



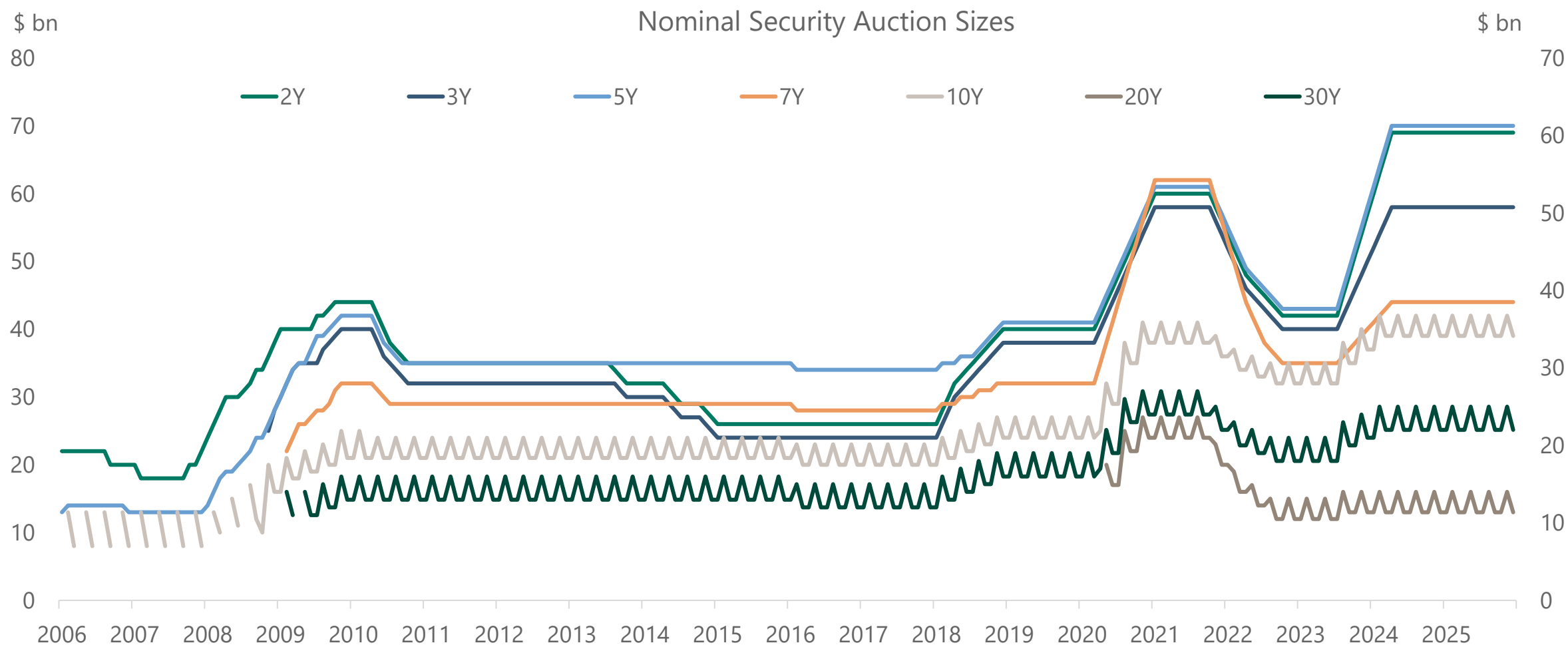
Source: Bloomberg, Apollo Chief Economist. Note: Hedged Treasury yield is calculated as $\left(\frac{((-3 \text{ month forward}/10000)/\text{exchange rate})+1\right)^{4-1} \times 100 + 10 \text{ year US Treasury yield}$.

Who owns different countries' government debt?

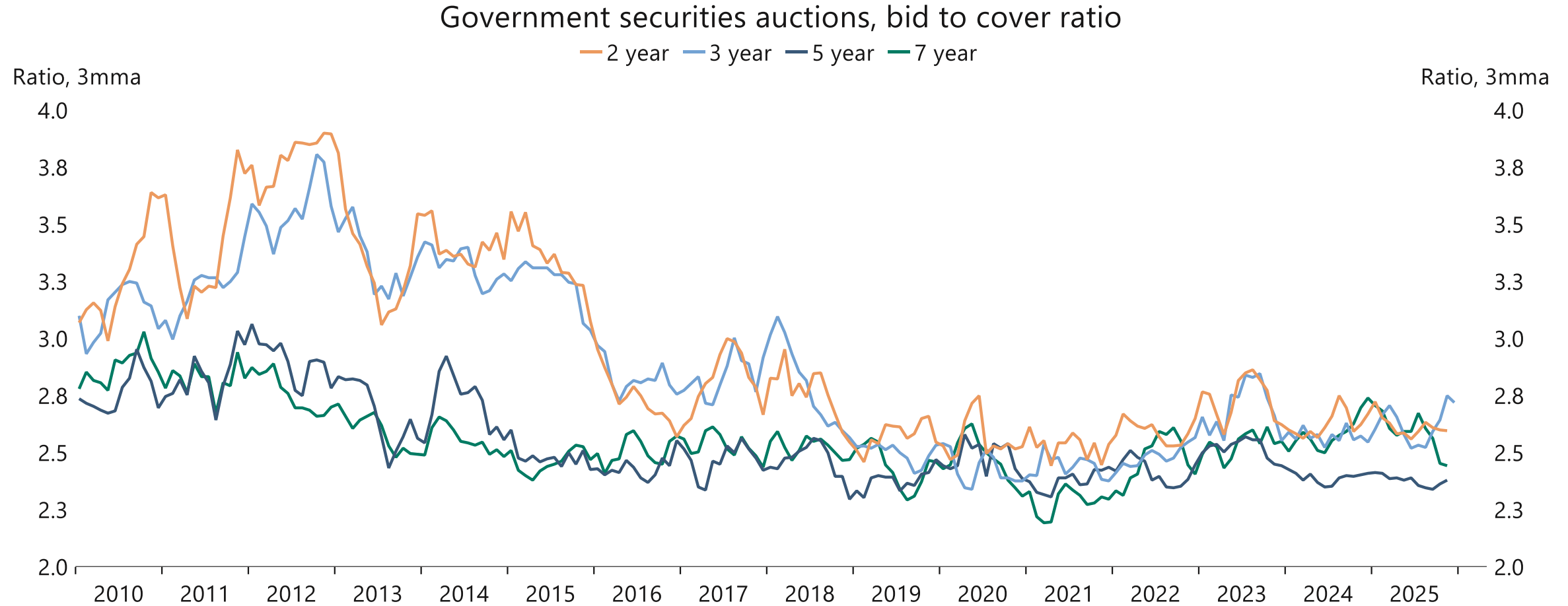


Treasury auction metrics

Auction sizes growing



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



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

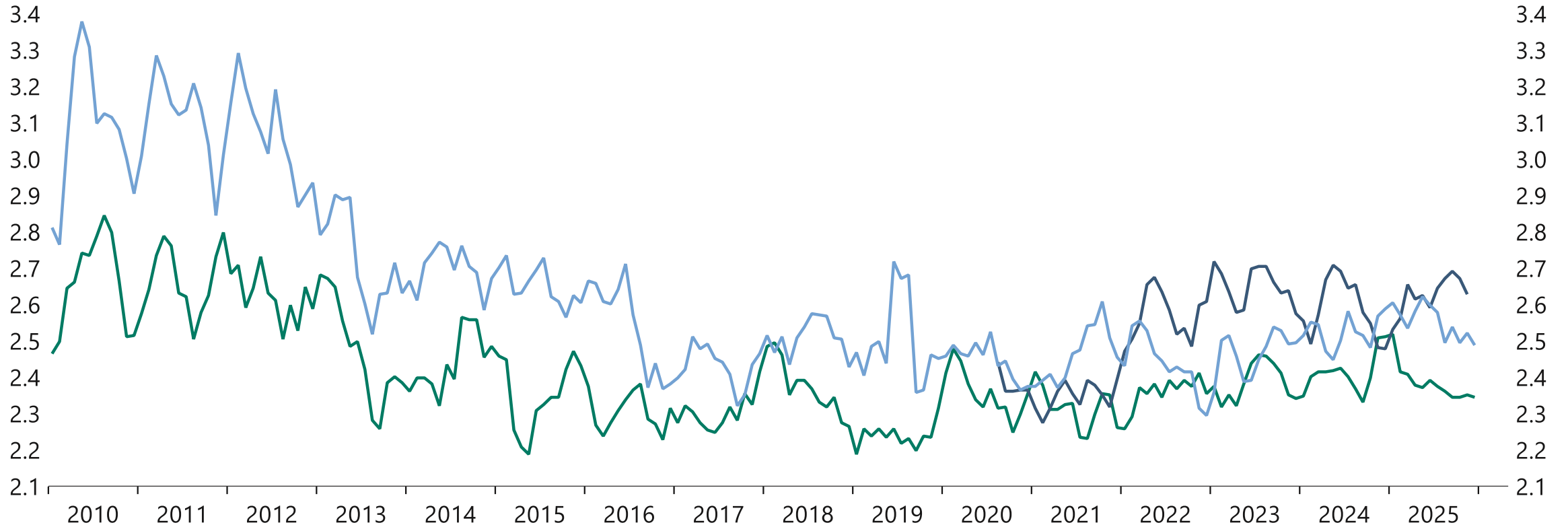
Rising Treasury supply increases downside risks to bid-to-cover ratios

Government securities auctions, bid to cover ratio

— 10 year — 20 year — 30 year

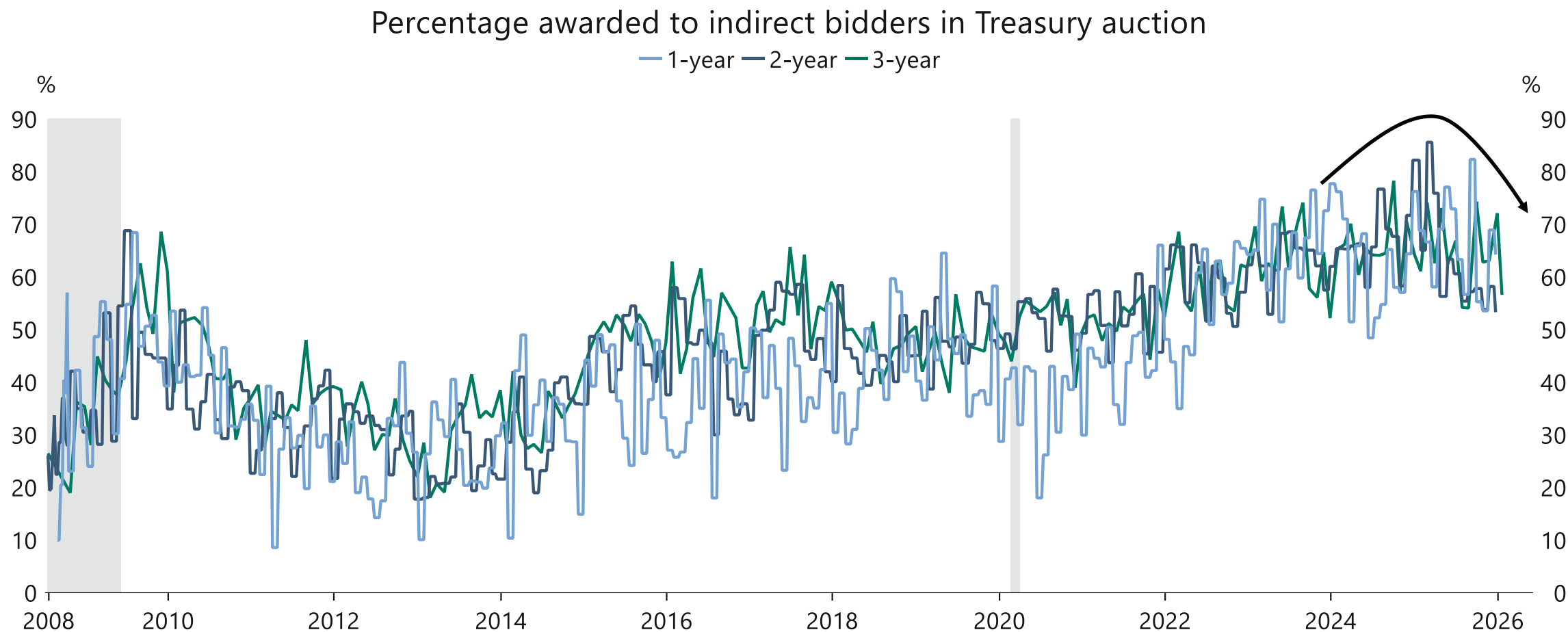
Ratio, 3mma

Ratio, 3mma



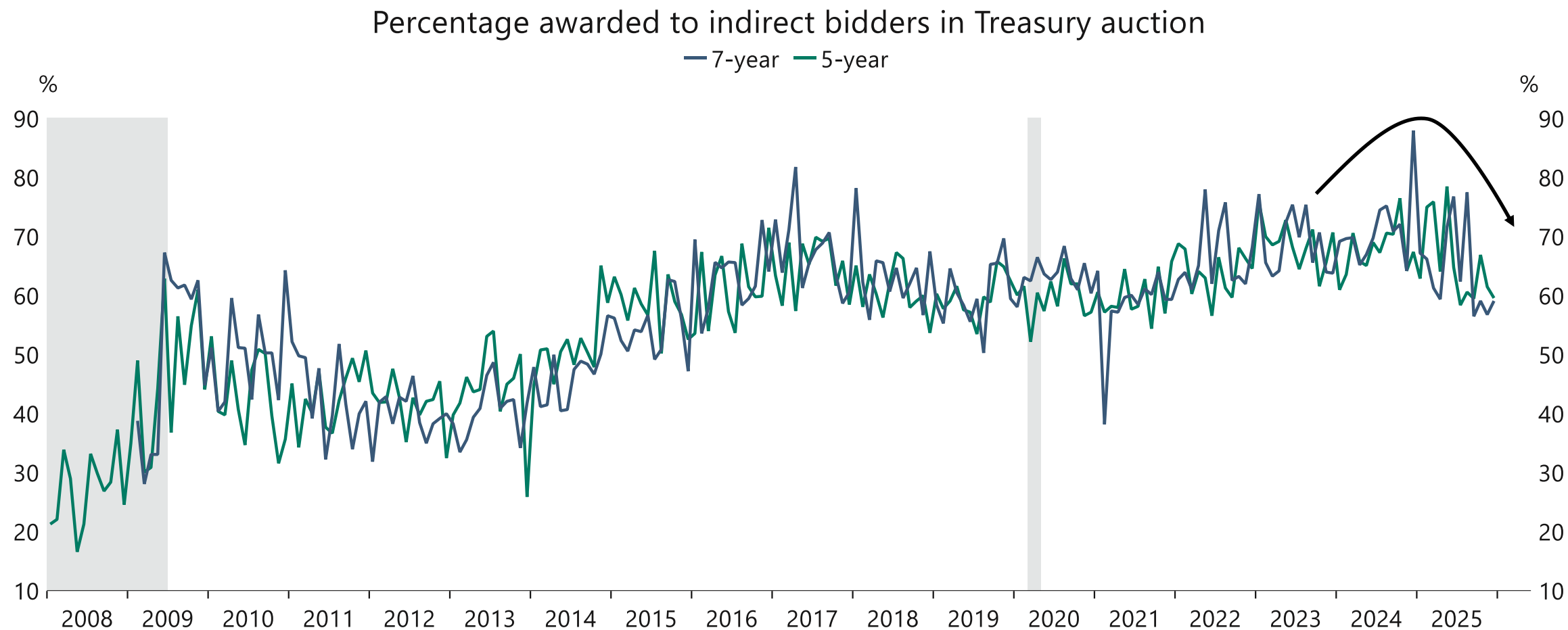
Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Indirect bidder share for 1, 2, and 3-year notes



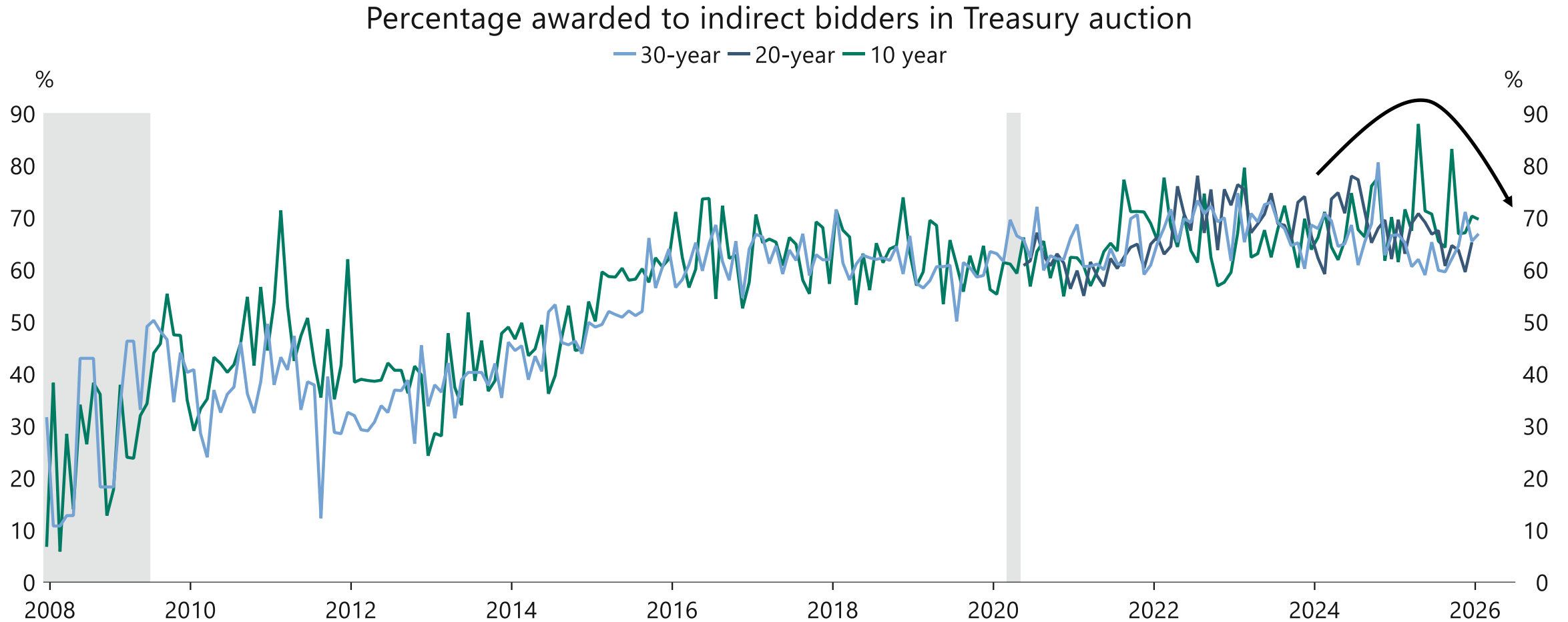
Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

Indirect bidder share for 5- and 7-year notes

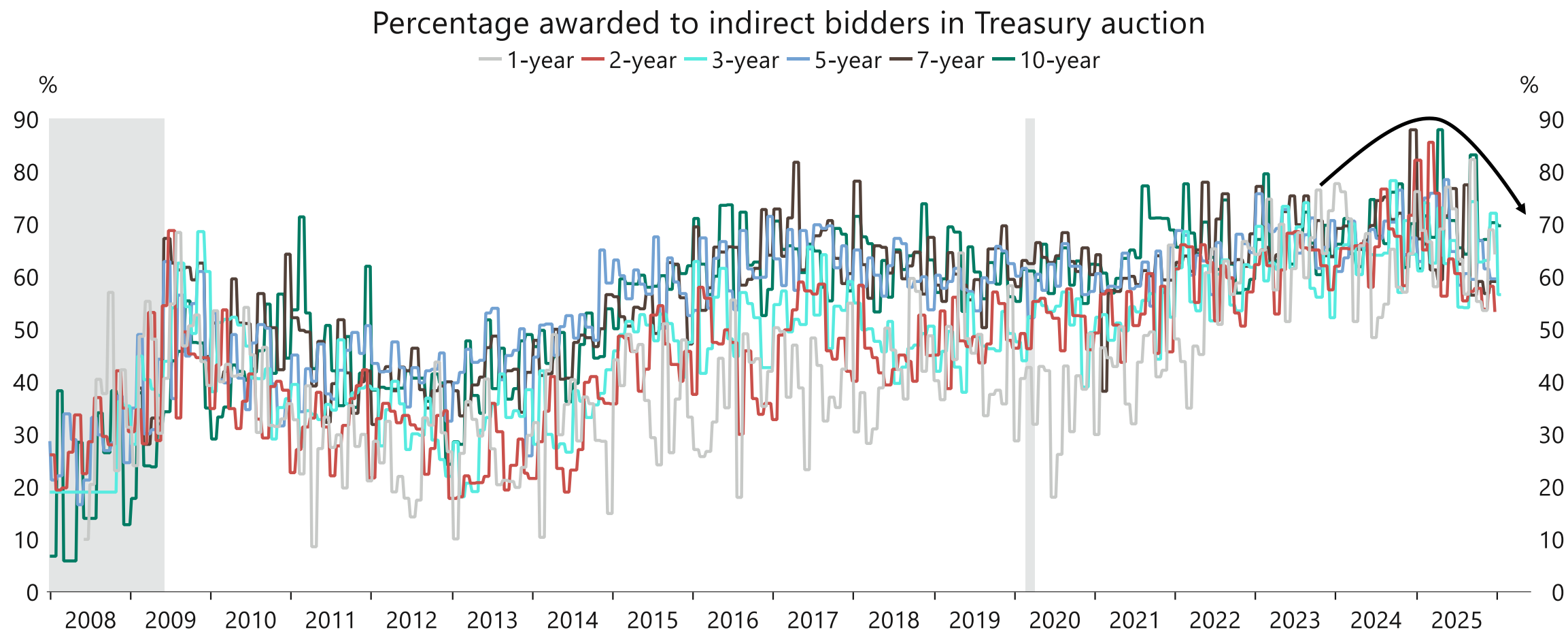


Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

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

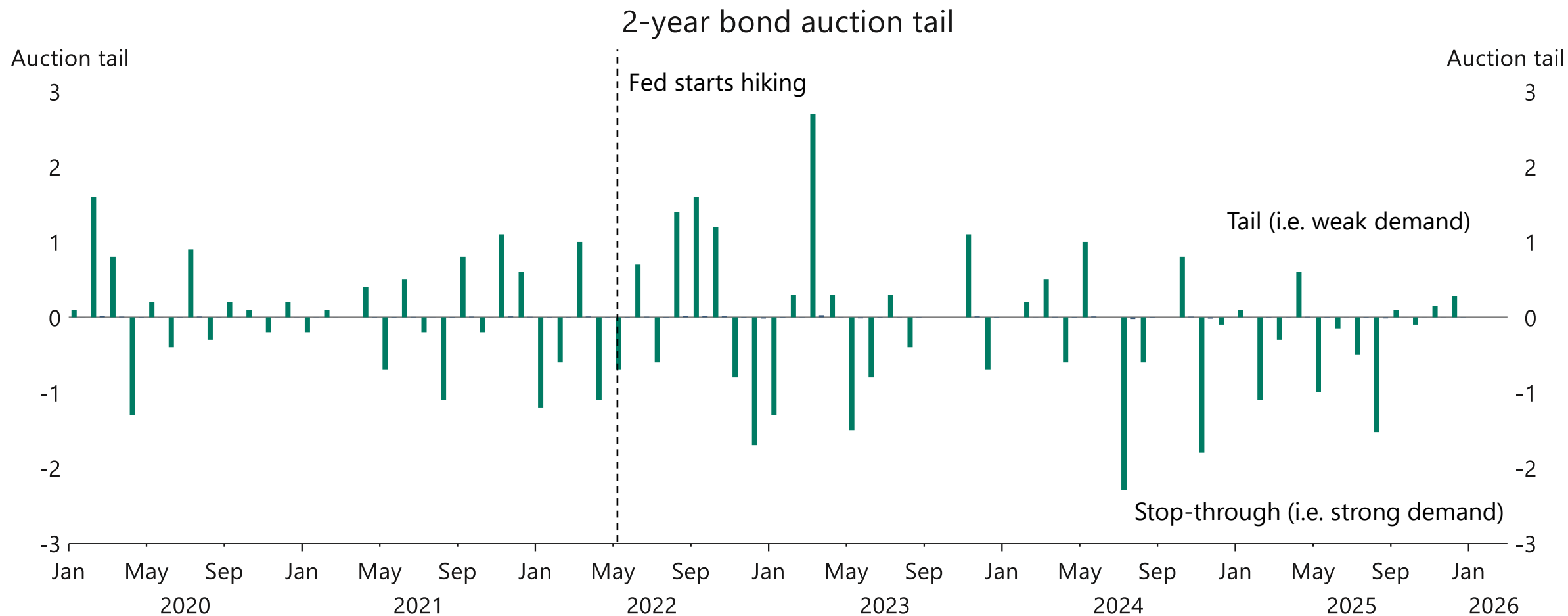


Indirect bidder share for Treasury notes



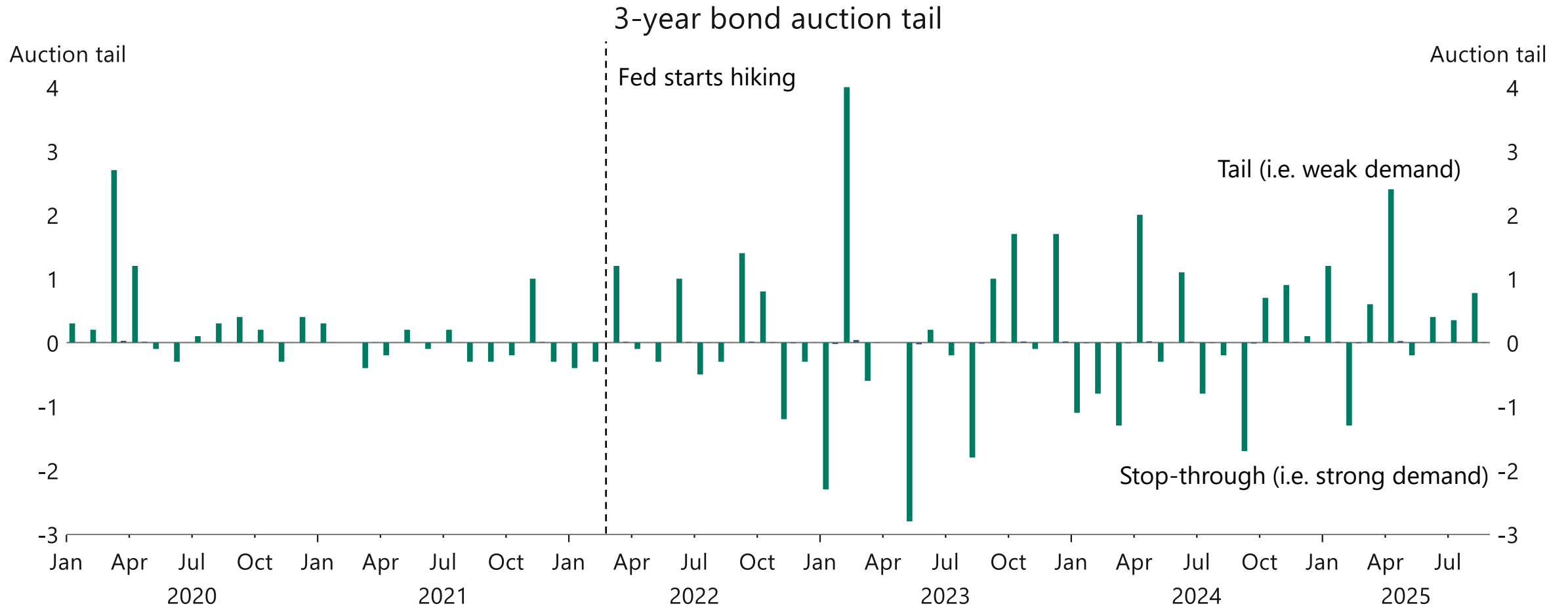
Source: US Treasury, Bloomberg, Macrobond, Apollo Chief Economist

2-year bond auction tails



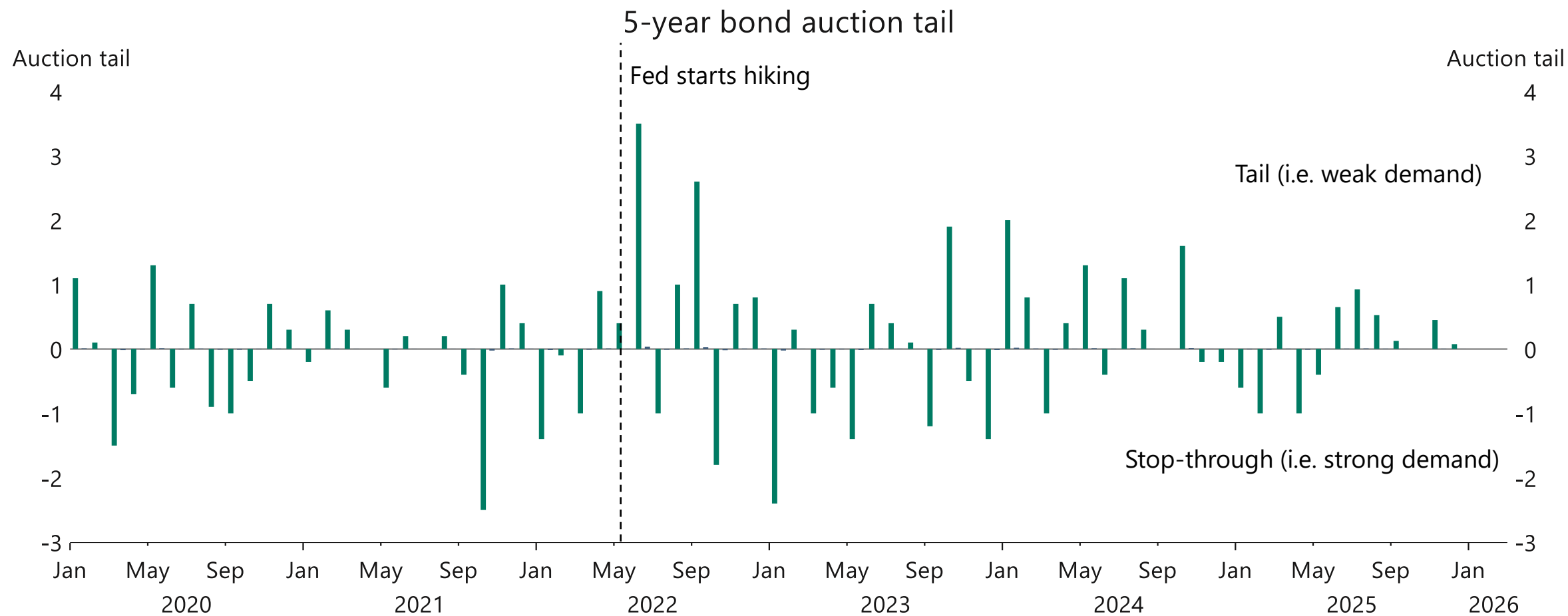
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USB2YTL Index.

3-year bond auction tails



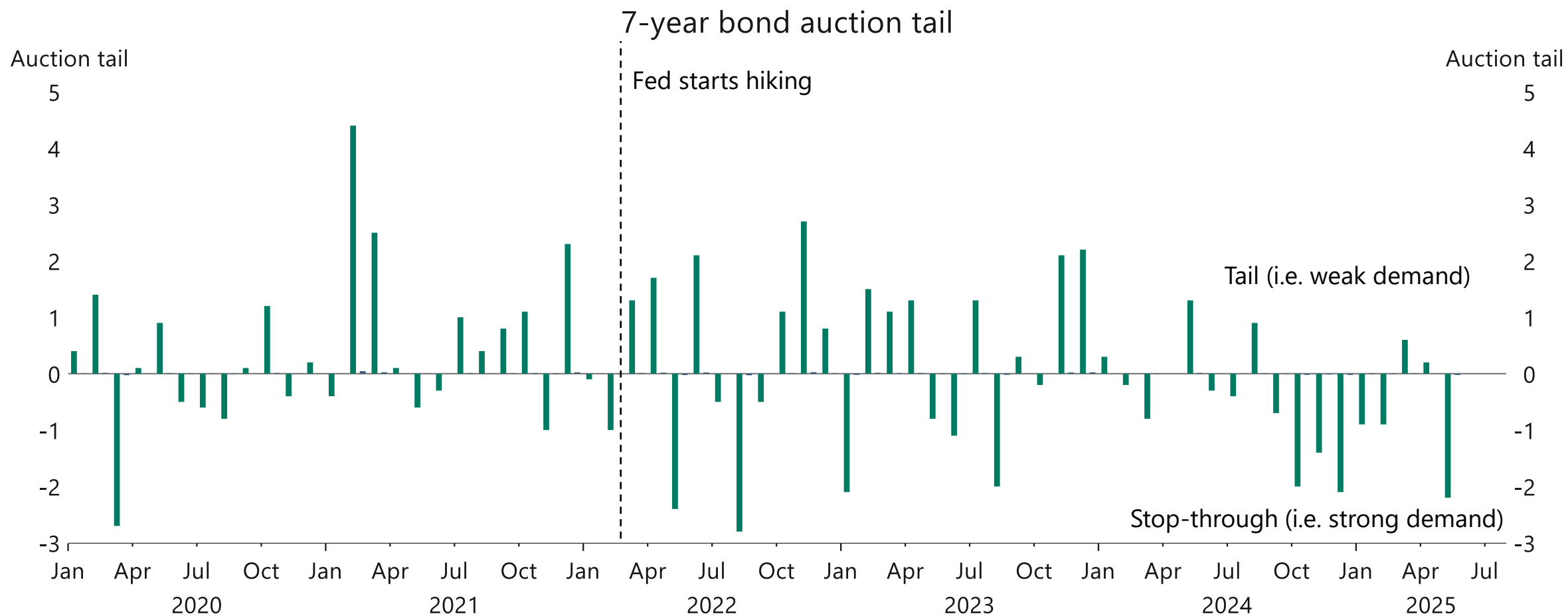
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USN3YTL Index.

5-year bond auction tails



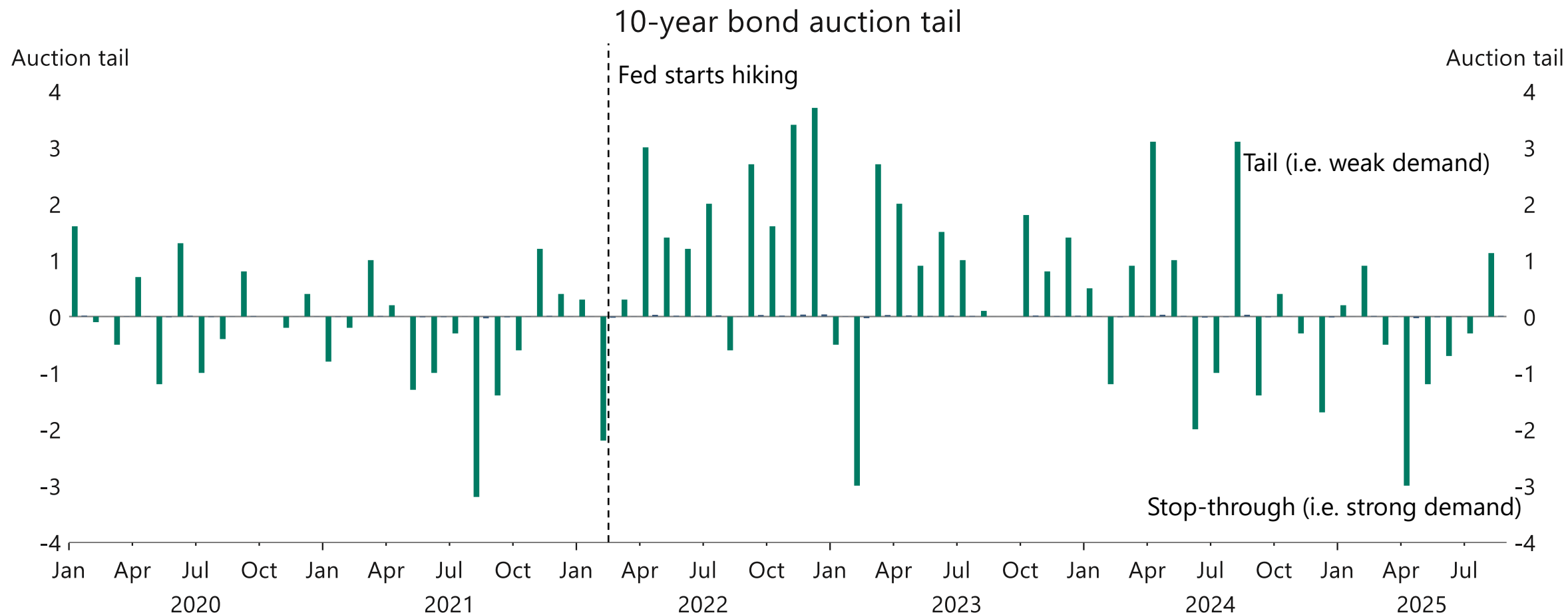
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USB5YTL Index.

7-year bond auction tails



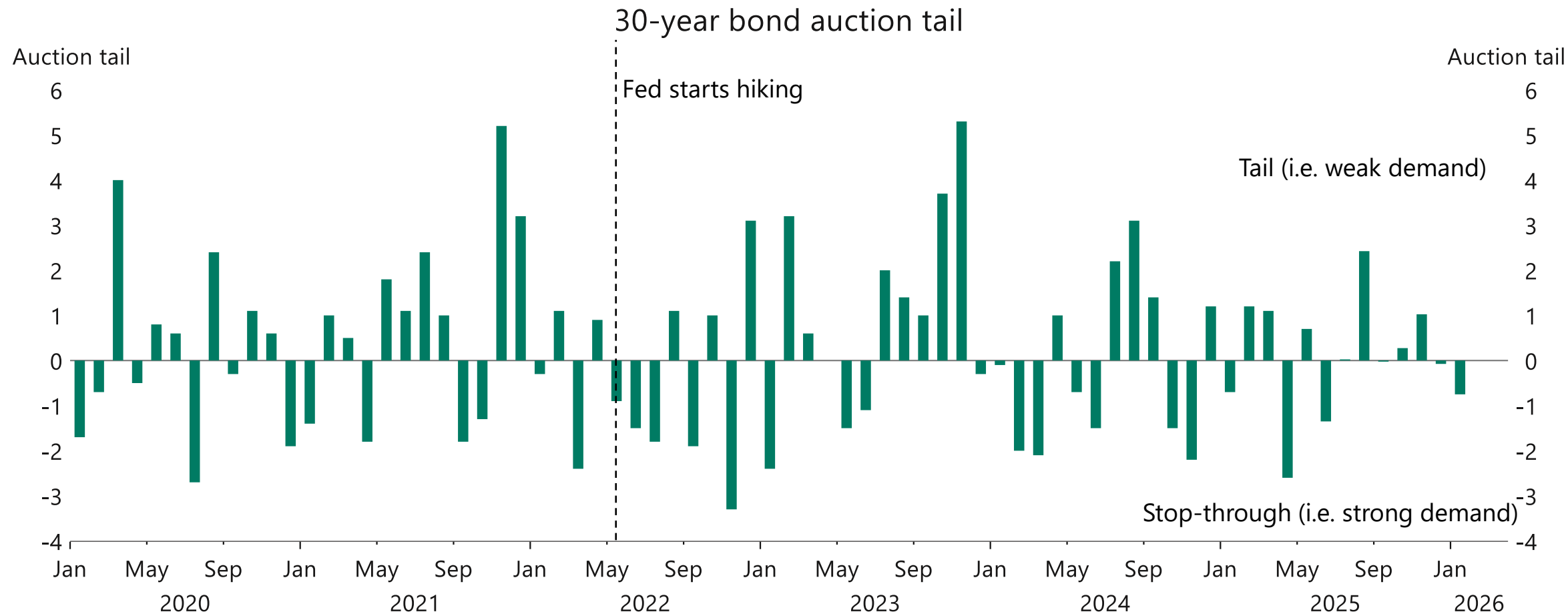
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USB7YTL Index.

10-year bond auction tails



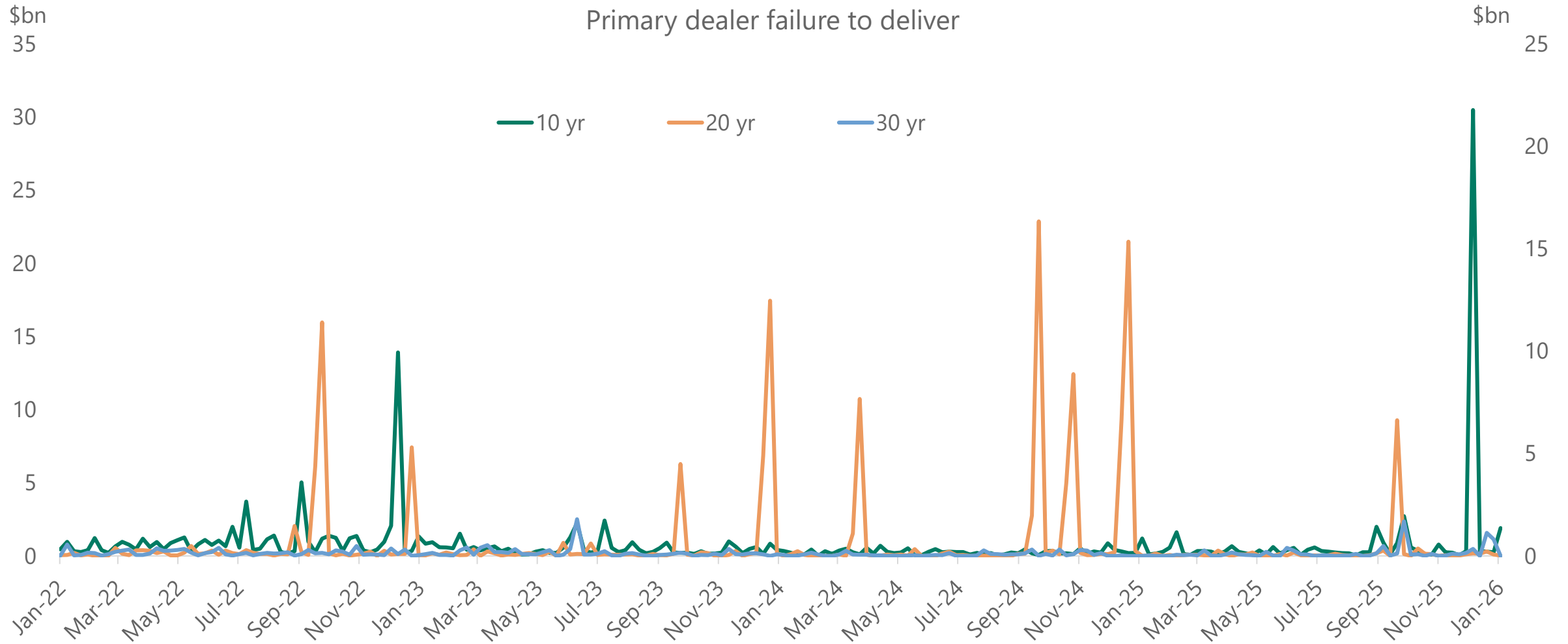
Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Bloomberg ticker USN10YTL Index.

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 dollar

Characteristics of a reserve currency

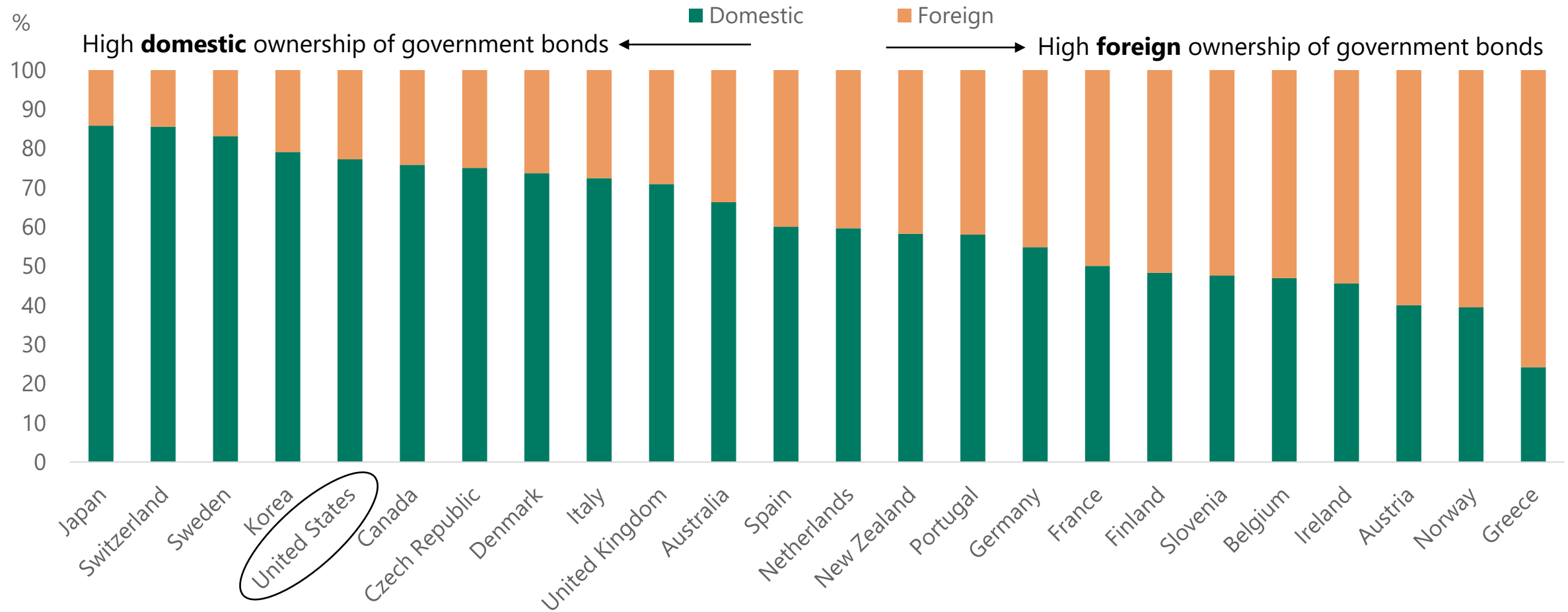
- The size of the domestic economy,
- The importance of the economy in international trade,
- The size, depth, and openness of financial markets,
- The convertibility of the currency,
- The use of the currency as a currency peg
- Domestic macroeconomic policies

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

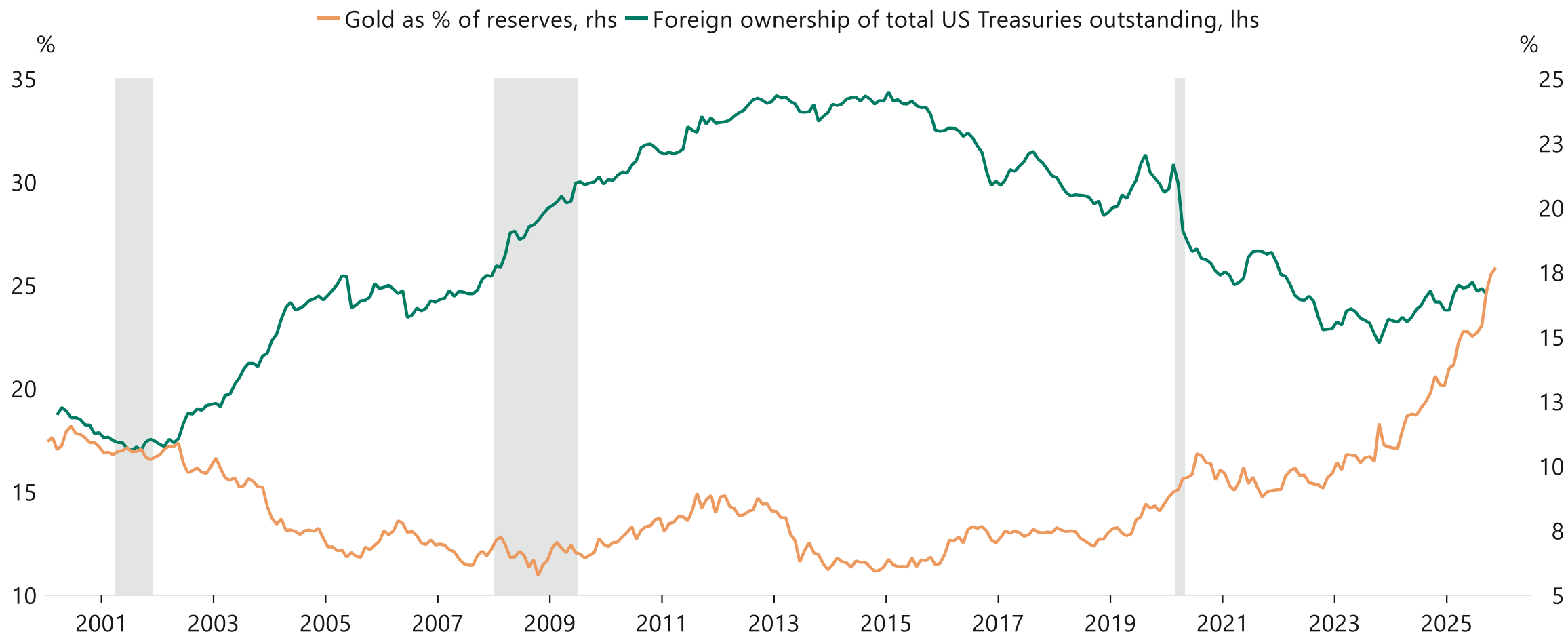


Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: 1-year yield differential = 1-year German government bill minus 1-year US T-bill. pp = percentage points

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

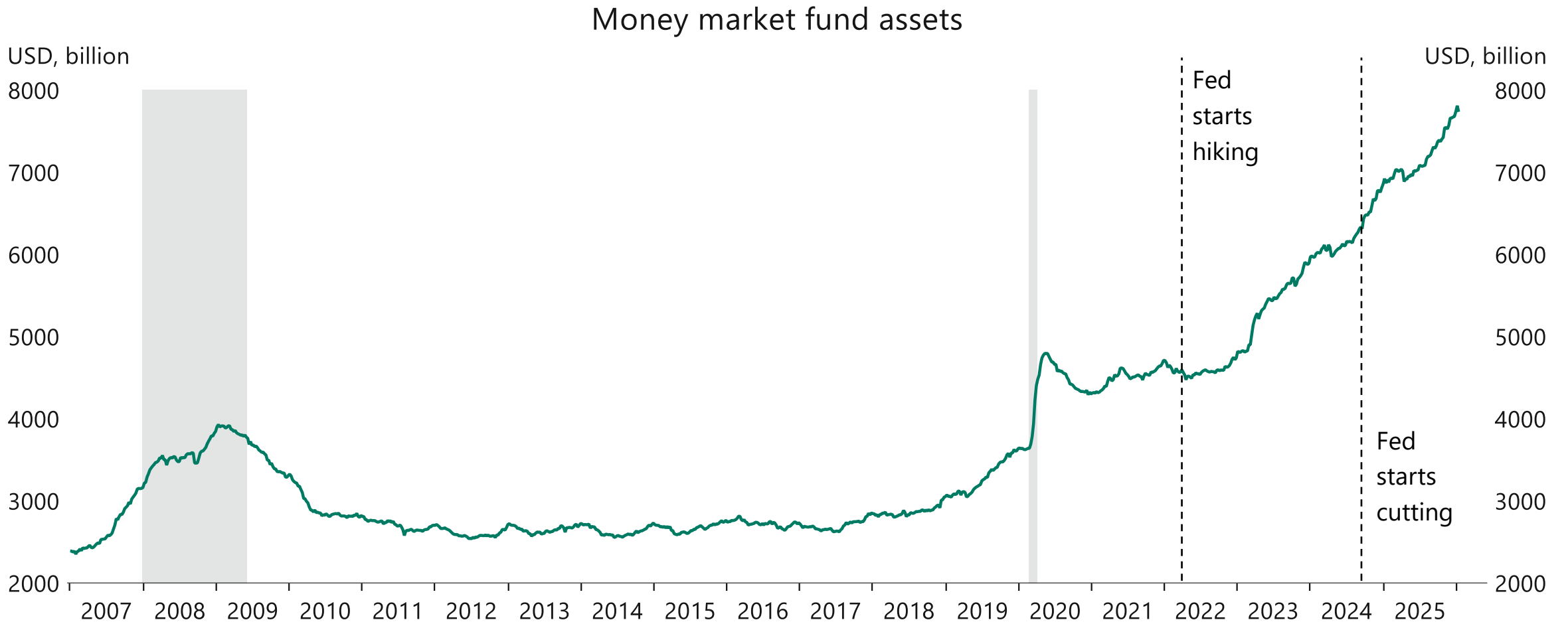


Gold reserves rising. Sanctions likely playing a role.



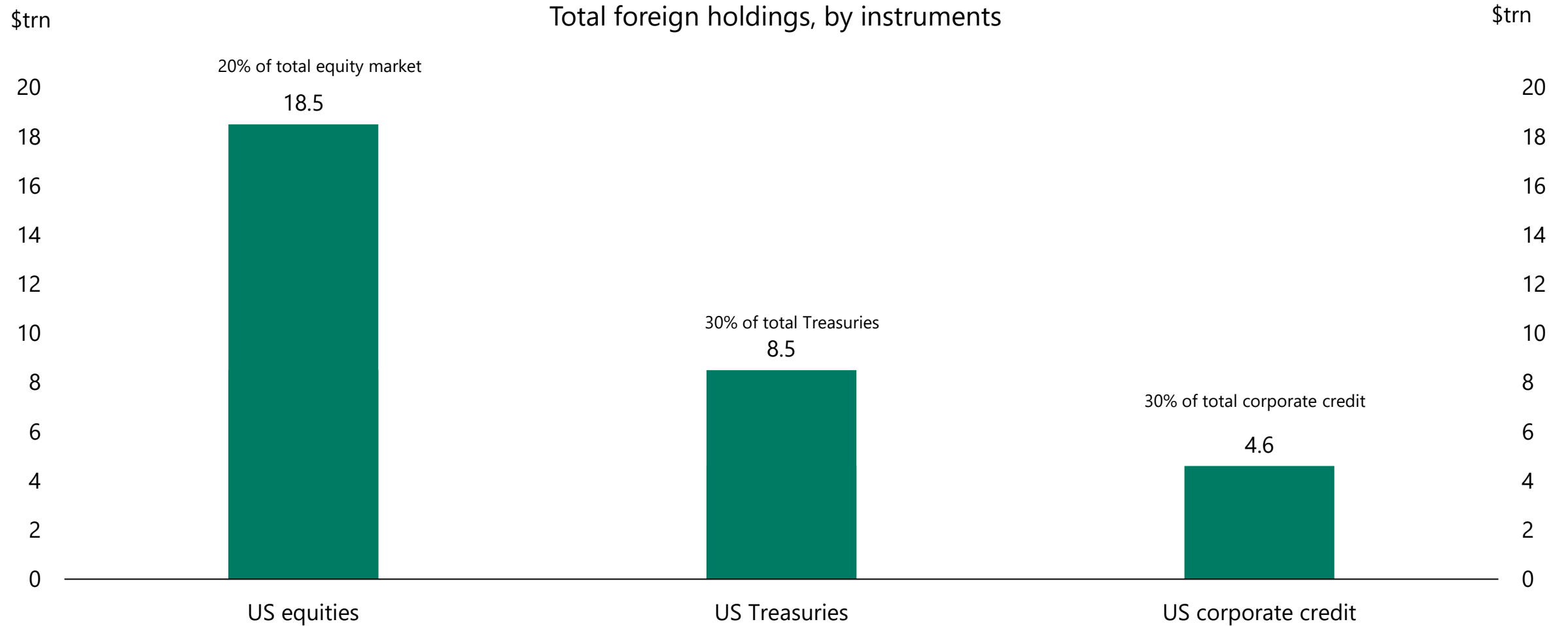
Source: U.S. Department of Treasury, International Monetary Fund (IMF), Macrobond, Apollo Chief Economist

The Fed cutting interest rates has not lowered inflows into money market funds



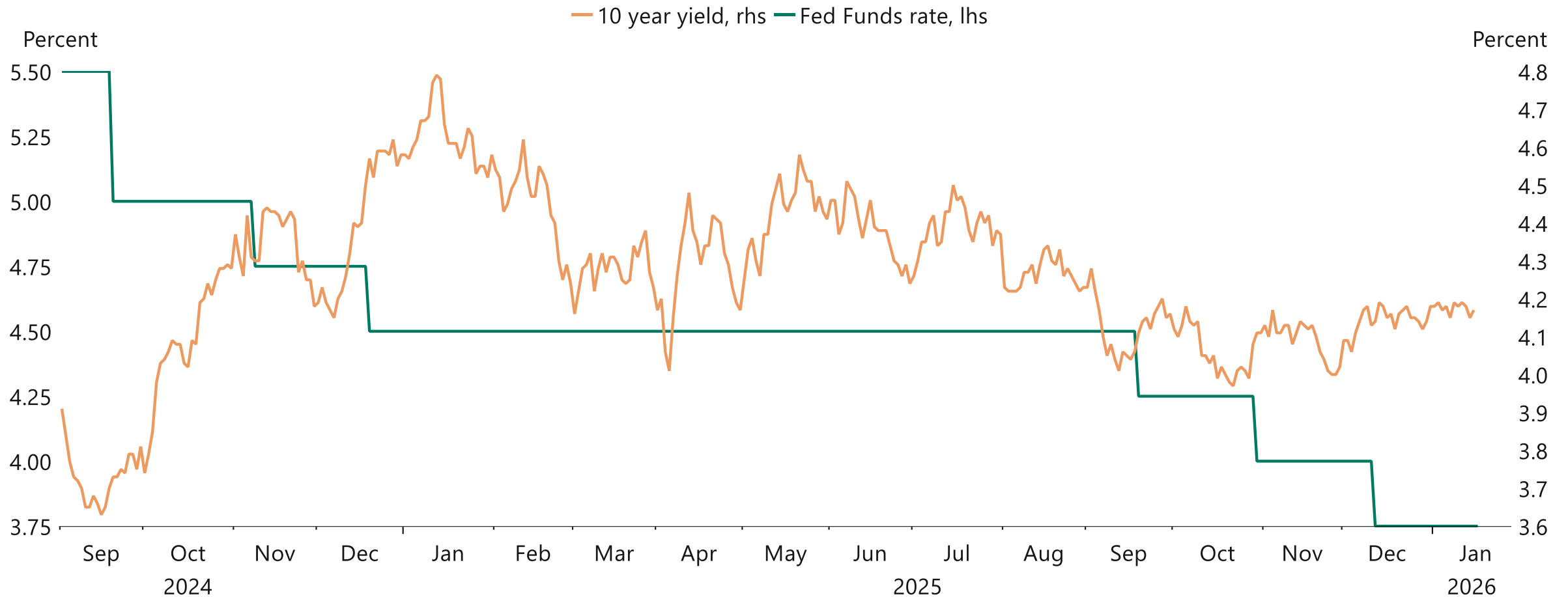
Source: Investment Company Institute (ICI), Macrobond, Apollo Chief Economist

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



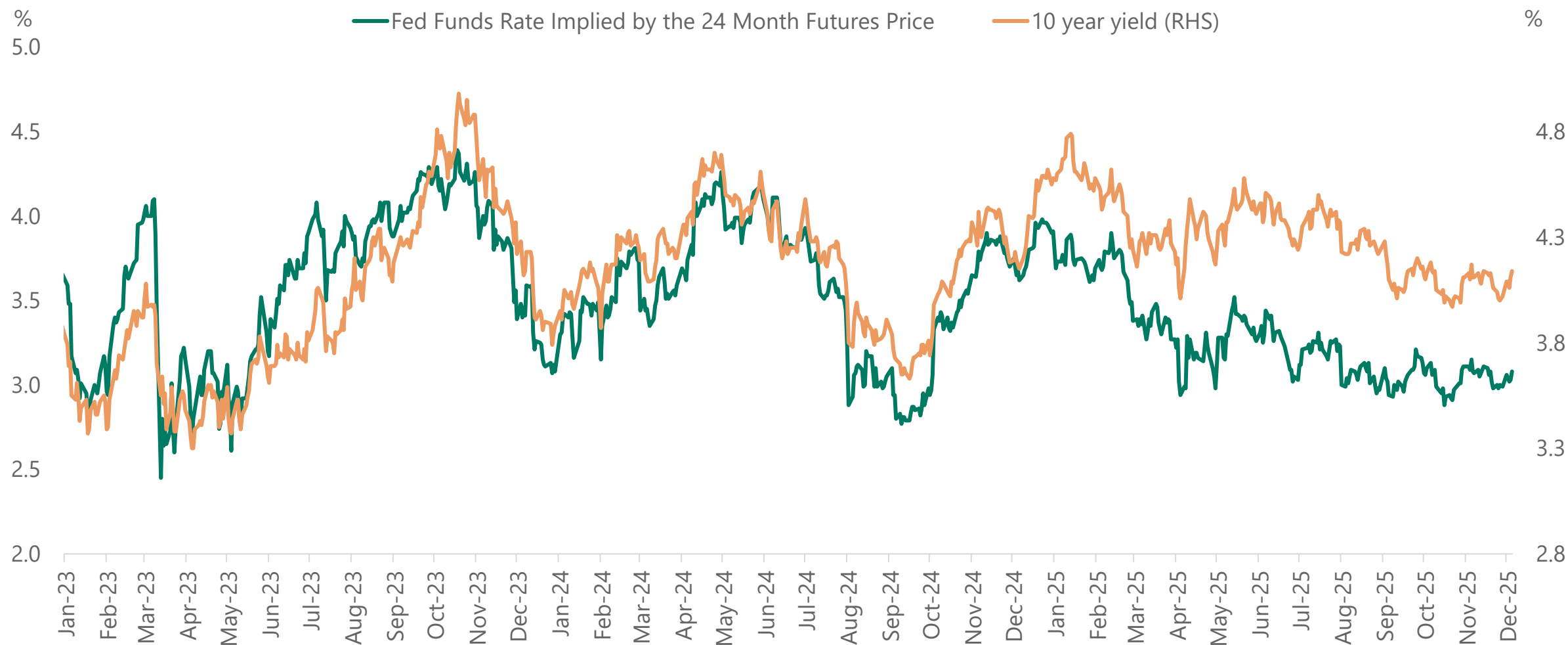
Fed funds rate vs 10-year yield: The term premium

Long-term interest rates are higher today than when the Fed began to cut interest rates in September 2024

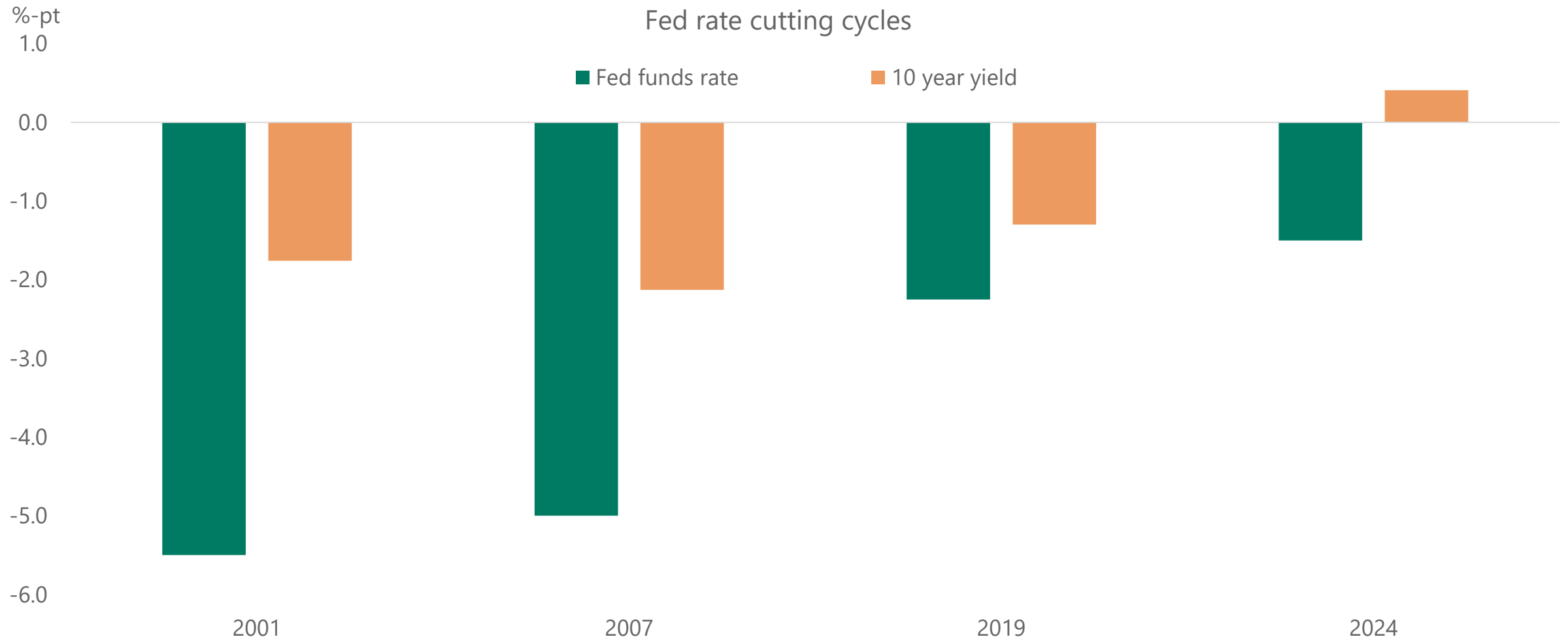


Source: Federal Reserve, U.S. Department of Treasury, Macrobond, Apollo Chief Economist

Long rates have disconnected from short rates



Normally when the Fed starts cutting, long-term interest rates also decline



Source: Haver Analytics, Apollo Chief Economist. Note: 2001 is from Jan 2001 to June 2003, 2007 is from September 2007 to December 2008, 2019 is from August 2019 to March 2020 and 2024 is from September 2024 to December 2025

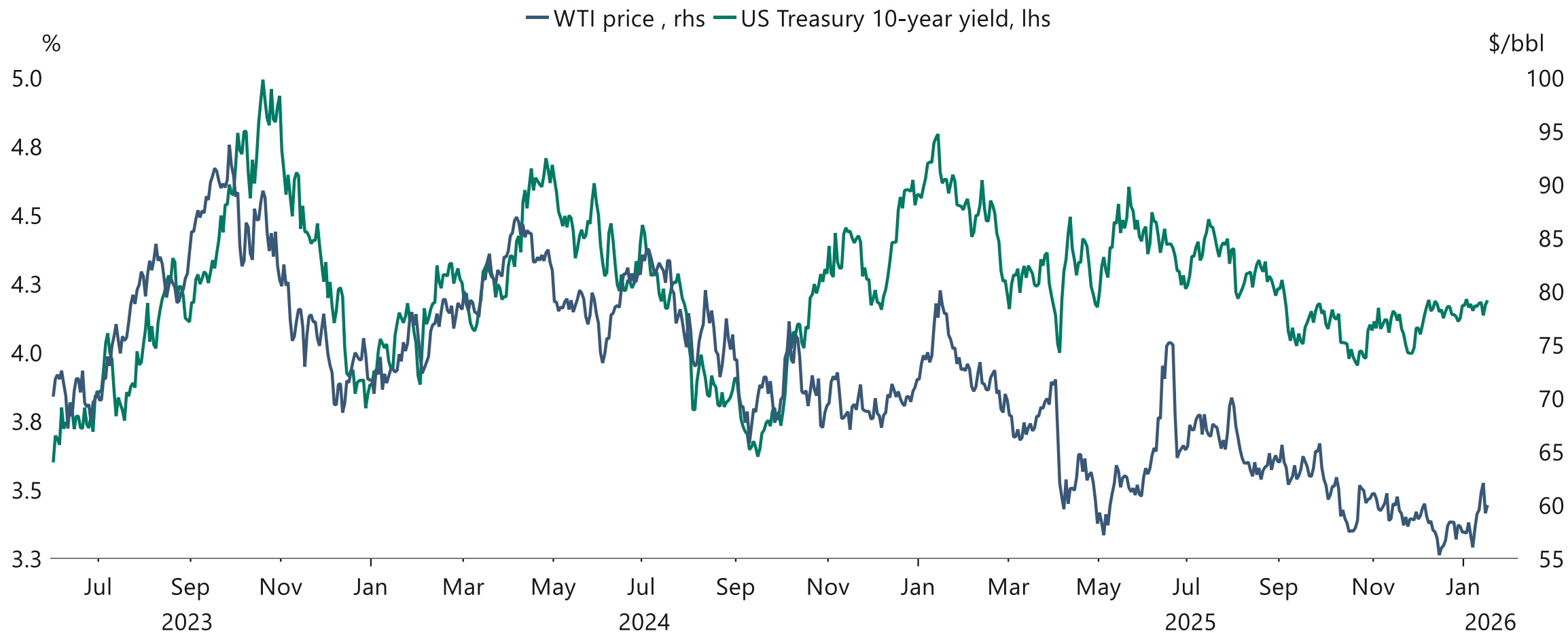
Term premium is rising

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.

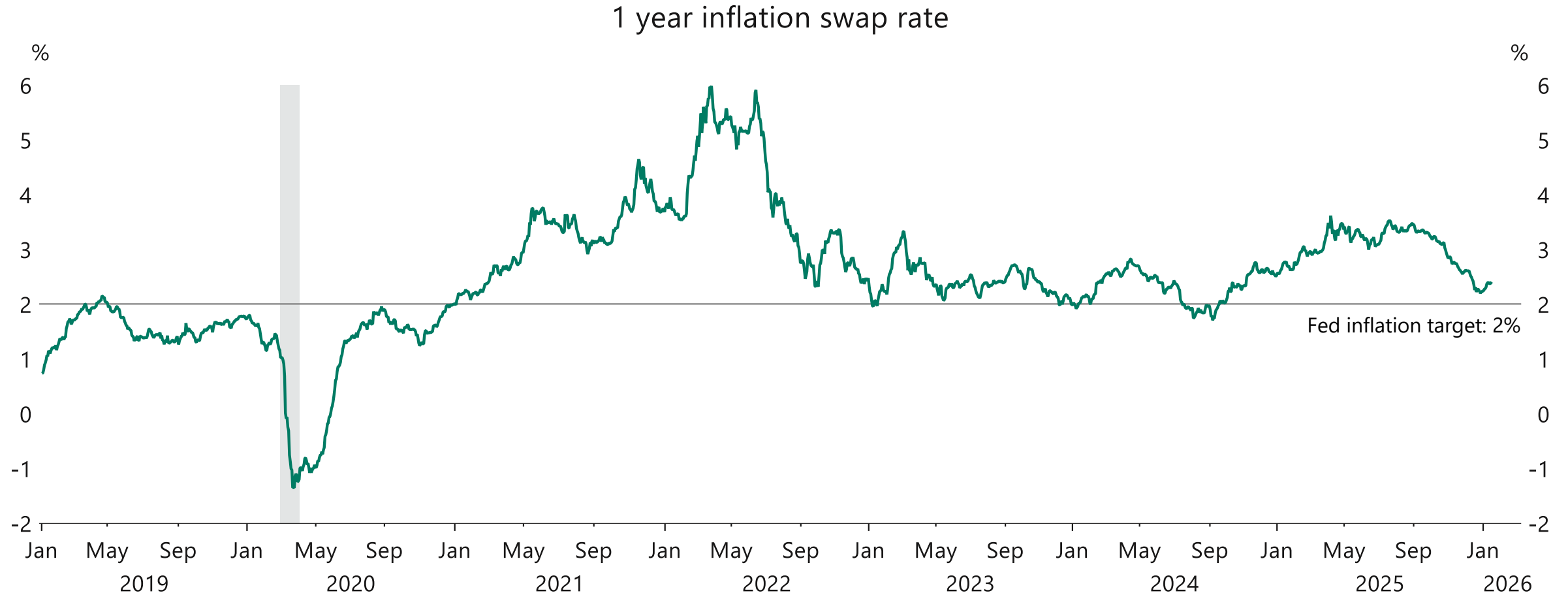
10-year Treasury yield higher than what oil prices would have predicted



Source: Bloomberg, Macrobond, Apollo Chief Economist

Fed expectations and inflation expectations

The market is pricing that inflation in one year will be 2.6%, well above the Fed's 2% target



Source: Bloomberg, Macrobond, Apollo Chief Economist. Note: Ticker used USSWIT1 Curncy



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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.