Trends in demand for US Treasury securities

Treasury Borrowing Advisory Committee
February 2026

***Investor Trends**: Please discuss recent developments in investor demand for Treasury securities. How do you expect structural demand for different Treasury products and tenors to evolve over the next several years? What are the most promising sources of potential additional demand (either from new investors or additional demand from existing investors)? What factors are most important in affecting demand from different investor types?*

Executive Summary

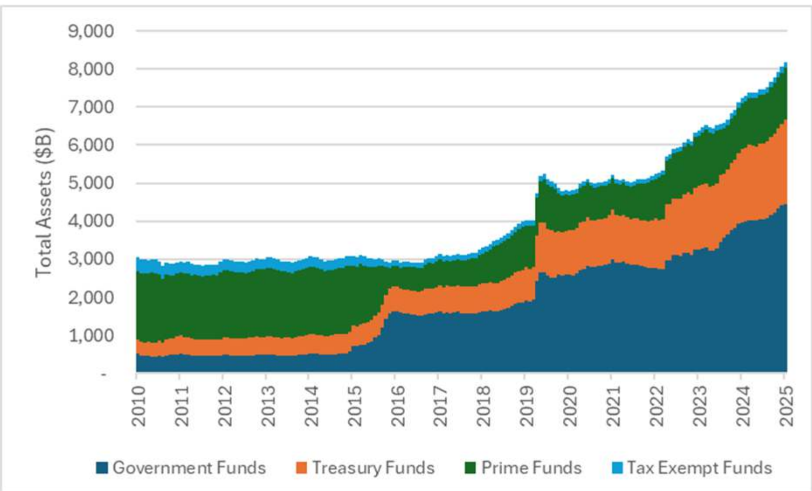
- Since mid-2022, Treasury demand has shifted from the Federal Reserve due to runoff from the System Open Market Account (SOMA) portfolio through quantitative tightening (QT) to a multitude of investors including money market funds, mutual funds, ETFs, banks, and broker dealers
- We see several structural shifts that will impact the demand for Treasuries both overall, and across the yield curve
  - Move from Residential Mortgage-Backed Securities (RMBS) into Treasuries in Fed SOMA holdings
  - Trends in pensions structure and retirement
  - Private share of total foreign investors demand now exceeds public sources
  - Potential increase in the use of stablecoin
- Investors hold Treasuries in their portfolios to achieve core objectives
  - Factors that influence allocations include high liquidity, fulfilling collateral needs, duration management, diversification benefits, gaining US fixed income market exposure, and central bank reserve management
  - Relative value considerations become more important once core objectives are met
  - Improving the utility of Treasuries along these objectives will support demand across the range of US Treasury investors

Recent developments in investor demand for Treasury securities

US Treasury investor profile

- With continued QT throughout much of 2025, the Fed Balance Sheet shrank accordingly
- Money market fund assets have grown significantly since 2023
- Banks, Insurance, Pensions, ETFs, and Broker/Dealers all had moderate increases in their Treasury portfolio allocations

Money market fund growth by fund type



Source: SEC

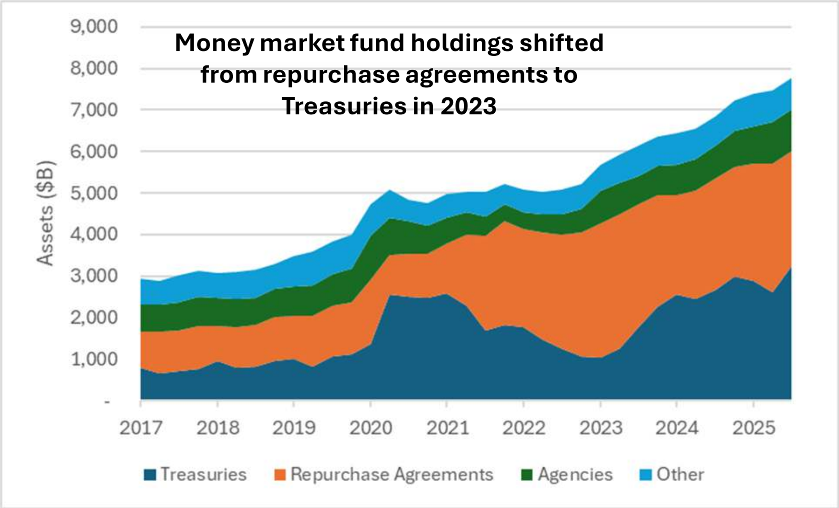
	Treasury Holdings $B	Treasury Market %	2yr Net Treasury Growth[1]
Foreign	9,269	33%	0%
Federal Reserve	3,831	14%	-18%
Money Market	3,232	12%	24%
Household	2,961	11%	1%
Banks	1,940	7%	5%
Mutual Funds	1,576	6%	-2%
State & Local	1,572	6%	-3%
Pensions	590	2%	4%
ETF	676	2%	9%
Insurance	658	2%	13%
Broker/Dealer	493	2%	14%
GSE	255	1%	19%

[1] Net growth is gross CAGR of Treasury holdings less the CAGR of the entire Treasury market for that time period

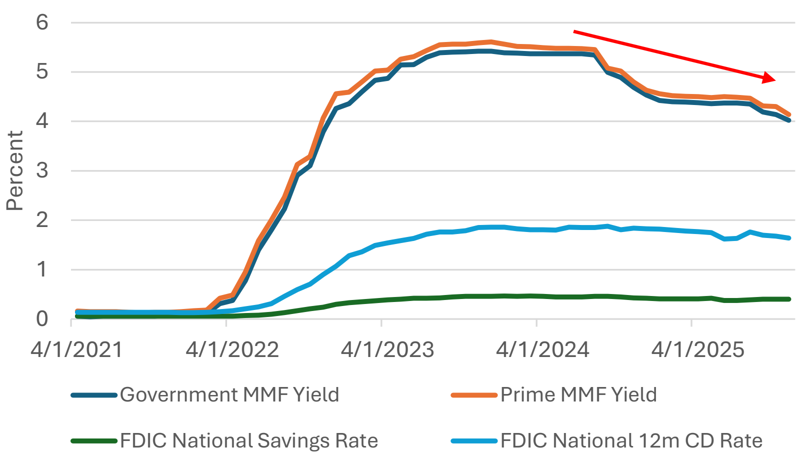
Source: Federal Reserve as of 9/30/2025, Presenter's calculations

Money market funds contribute significant short-end demand

- Growth is expected to moderate following the rapid expansion from 2022 to 2025
  - Factors contributing to recent significant growth in money market fund assets
    - Spread differential between money market rates and bank deposit rates
    - Inverted yield curve encouraged short tenor investments
  - Recent Fed rate easing can potentially slow or reverse these trends, though this has not yet materialized
- Will continue to be a very large component of overall T-bill demand in the future



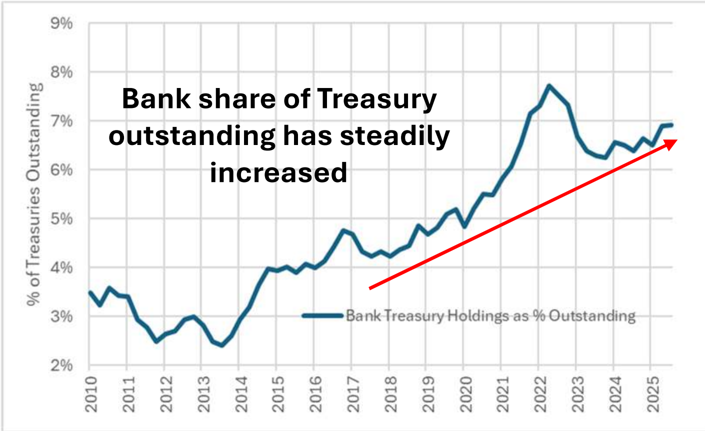
Source: Federal Reserve



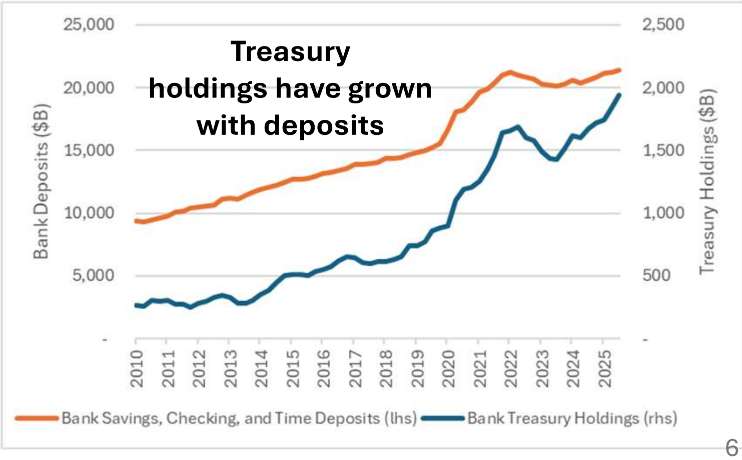
Source: SEC, FDIC

Conditions support Bank demand

- Banks' Treasury holdings have grown alongside deposits
- Conditions favor future bank deposit growth, suggesting this may continue
    - With the end of QT and the start of Fed Reserve Management Purchases (RMP), stability in reserves assists future potential bank deposit growth
    - Fed easing creates compression between money market and bank deposit rates
- Regulatory efforts from a finalized eSLR Rule and GSIB reform are positive factors to give Banks increased future flexibility to hold Treasuries
- In an ample reserve regime where Standing Repurchase Agreement (SRP) operations are intended to support the implementation of monetary policy, Treasuries may be increasingly attractive as a liquidity management tool
- This supports demand for both short-end and intermediate Treasuries



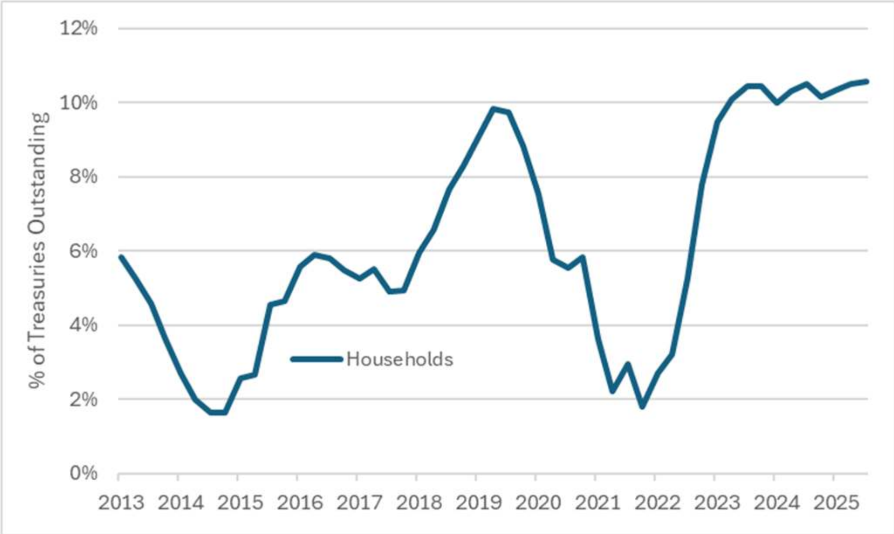
Source: Federal Reserve, Presenter Calculations



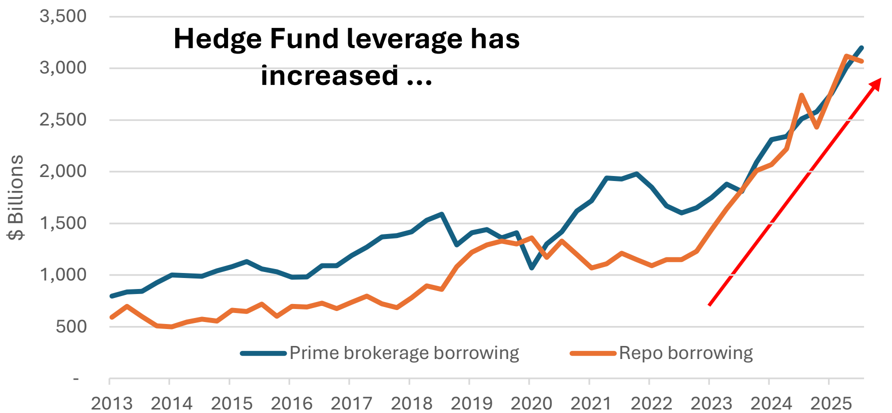
Source: Federal Reserve, Presenter Calculations

Household Treasury allocations supported by increased leverage

- Households (inclusive of Hedge Funds) share of Treasury issuance has remained steady since 2023
- Hedge Fund leverage has increased, both through repo and through prime brokerage, suggesting significant growth in the Treasury-Futures basis trade ("basis trade") and other relative value strategies
- As reflected in TBAC's previous work, this likely reflects use of futures by asset managers amidst continued growth in assets under management



Source: Federal Reserve

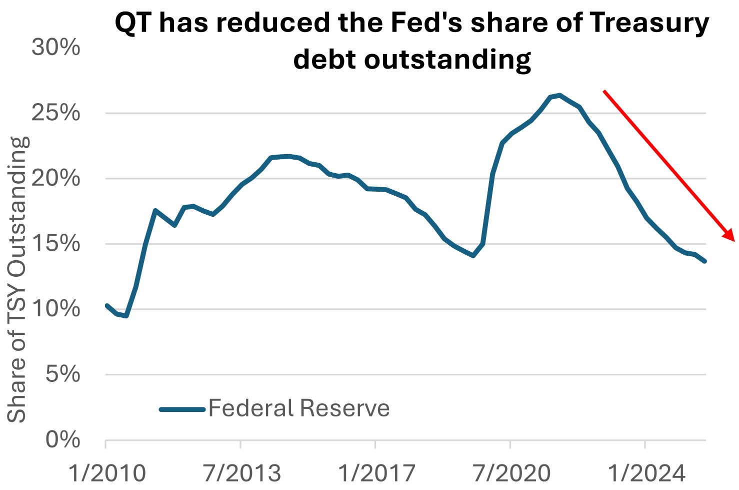


Source: Office of Financial Research

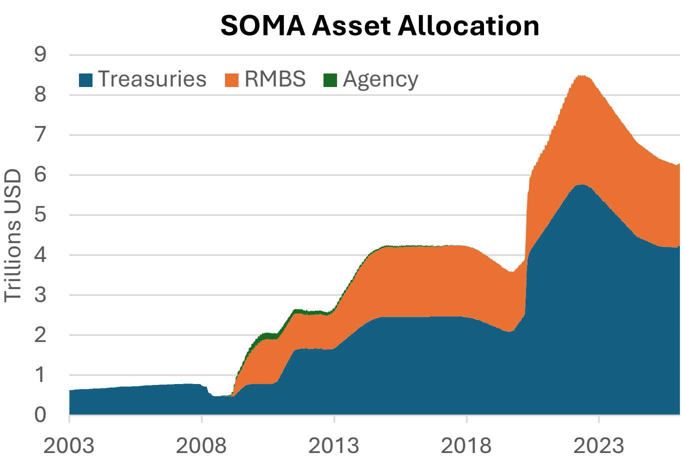
Structural shifts in US Treasury demand

Federal Reserve SOMA shifts

- As a result of QT, the Federal Reserve's percentage ownership of Treasury securities has fallen from a peak of 26% in 2021 to 14% currently
- The end of QT and T-bill purchases in the form of RMPs will stabilize this percentage near term
- Reinvesting RMBS runoff will add approximately $150-200bn/year of incremental US Treasury demand
- Current Fed SOMA T-bill percentage of 4% is significantly below the T-bill share of marketable outstanding debt
- These shifts support short-end Treasury issuance



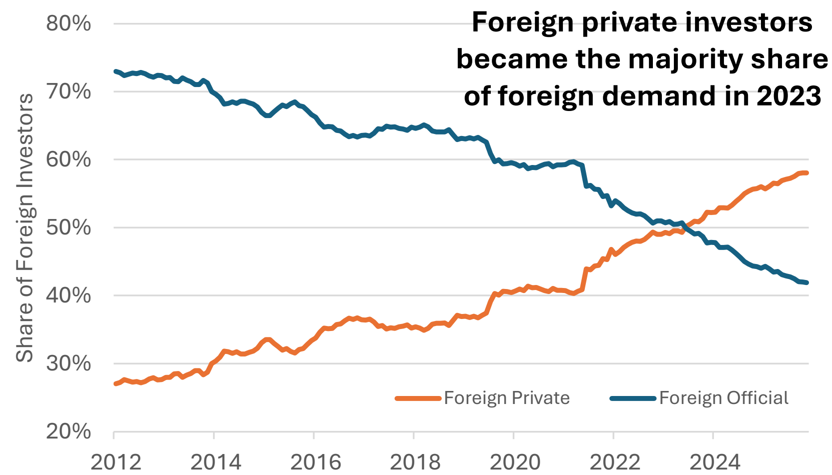
Source: Federal Reserve



Source: Federal Reserve

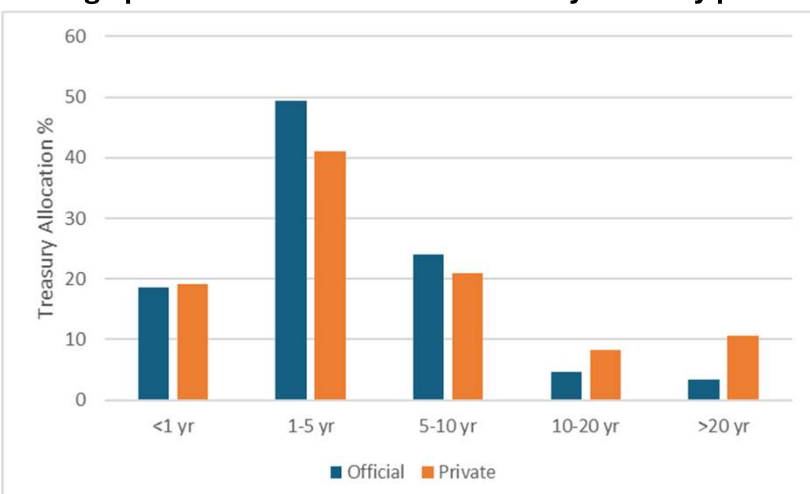
Foreign demand shifting to private sector buyers

- Foreign private investors now account for the majority of foreign Treasury demand
- Since 2023, foreign private investor holdings increased $1.3 trillion while official sector increased $0.1 trillion
- Private investor Treasury allocations favor more long end maturities

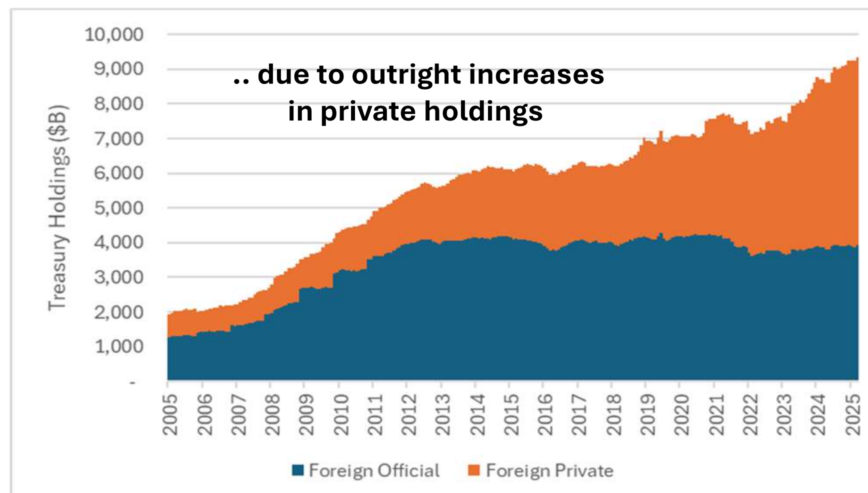


Source: US Treasury, Presenter calculations

Foreign private vs official sector Treasury maturity profile



Source: US Treasury, Presenter calculations

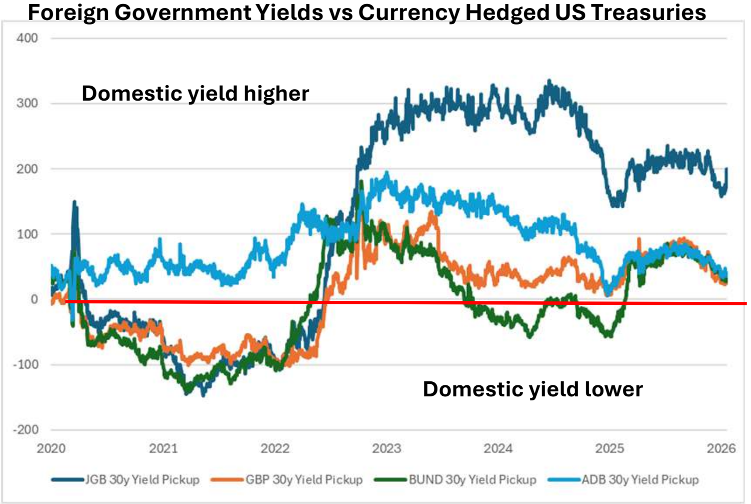


Source: US Treasury

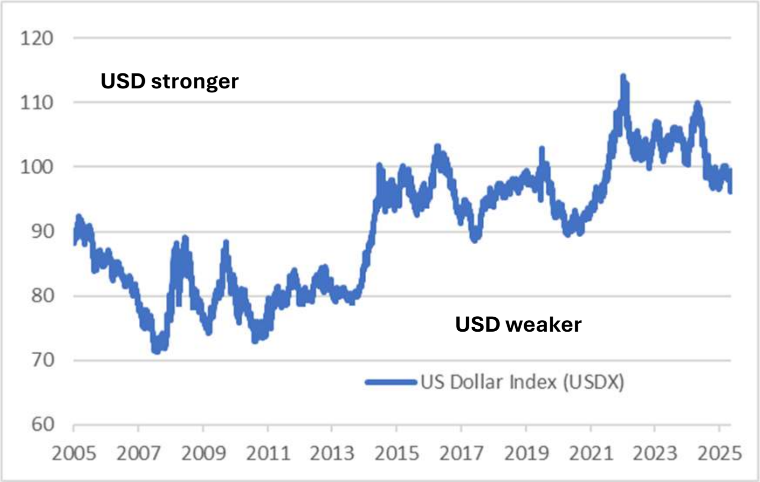
Foreign demand shifting to private sector buyers

- Foreign private investors can be more price sensitive than official sectors who primarily use Treasuries for reserve management purposes
- Currency hedging costs are a relative value consideration for certain foreign private investors
    - Some domestic sovereign alternatives offer higher yields than US Treasuries on a currency hedged basis
    - Foreign private holdings have increased despite this
    - Potential USD volatility could increase currency hedging needs
- Volatility of international long-end bonds has recently increased, partially due to concerns over growing fiscal deficits internationally, potentially leading to decreased future demand

Foreign Government Yields vs Currency Hedged US Treasuries



Source: Bloomberg, Presenter calculations

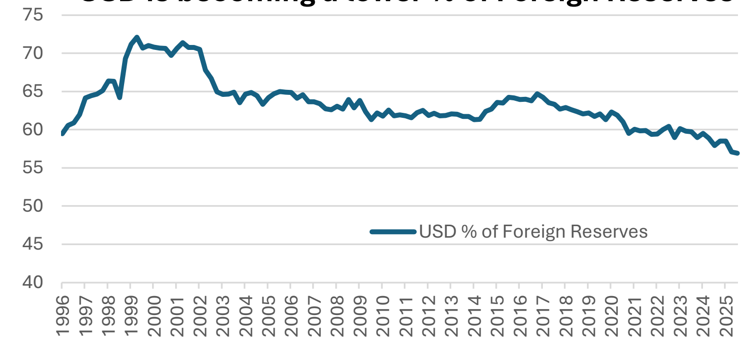


Source: Bloomberg

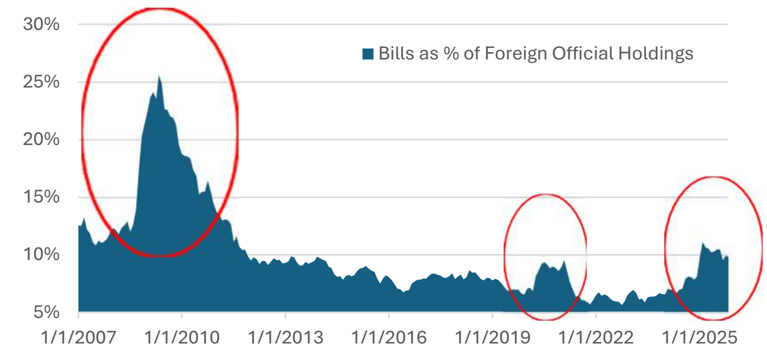
Foreign official sources are diversifying reserves

- The US dollar's share of global FX reserves has been gradually declining
- Reserve composition – foreign central banks continue to add gold, potentially displacing Treasury debt
- Foreign central banks shifted their holdings of T-bills during the GFC and COVID. Recently seen an increase in official sector T-bill allocation
- Heightened geopolitical risk may be increasing the trend to diversifying reserves

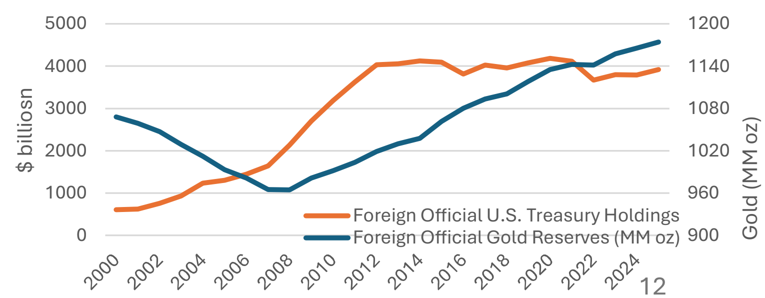
USD is becoming a lower % of Foreign Reserves



Source: Bloomberg, IMF



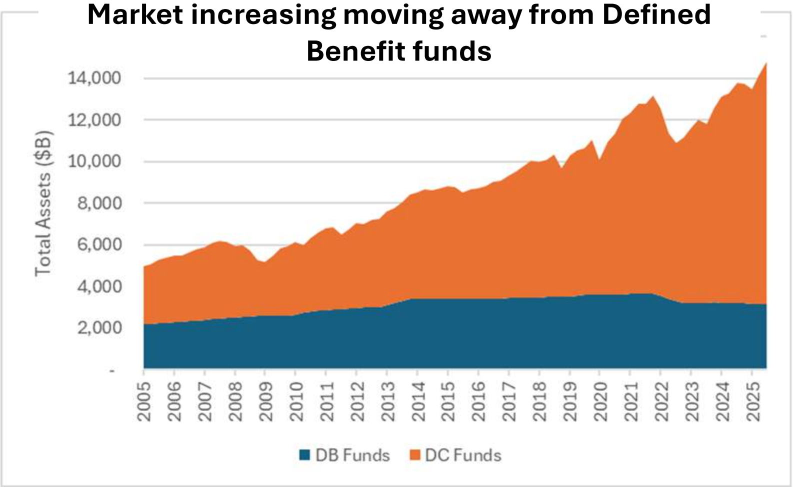
Source: US Treasury



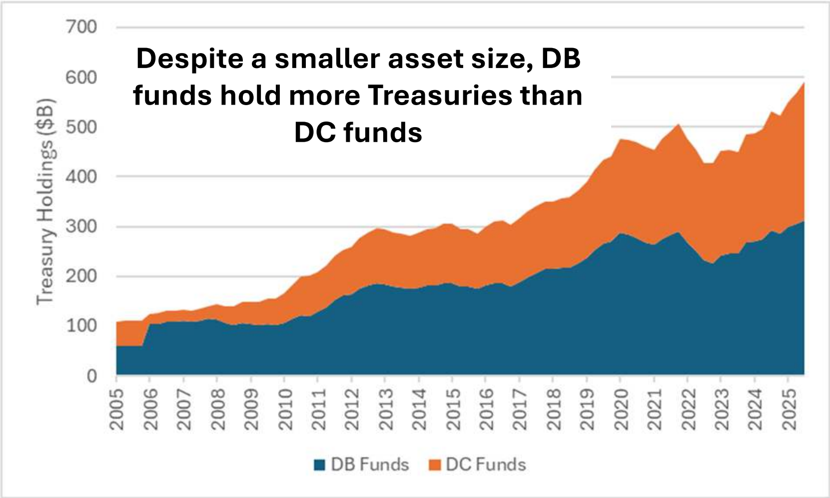
Source: Bloomberg, IMF, US Treasury

Pensions shifting away from defined benefit programs

- Growth in private pensions has been substantially in the form of Defined Contribution (DC) funds, rather than Defined Benefit (DB) funds
- Private DB pension funding ratios moved above 100% in 2022, encouraging de-risking activity
- Industry data measuring the risk of DB pension surplus suggests that this de-risking activity has been largely completed, potentially reducing future demand



Source: Federal Reserve



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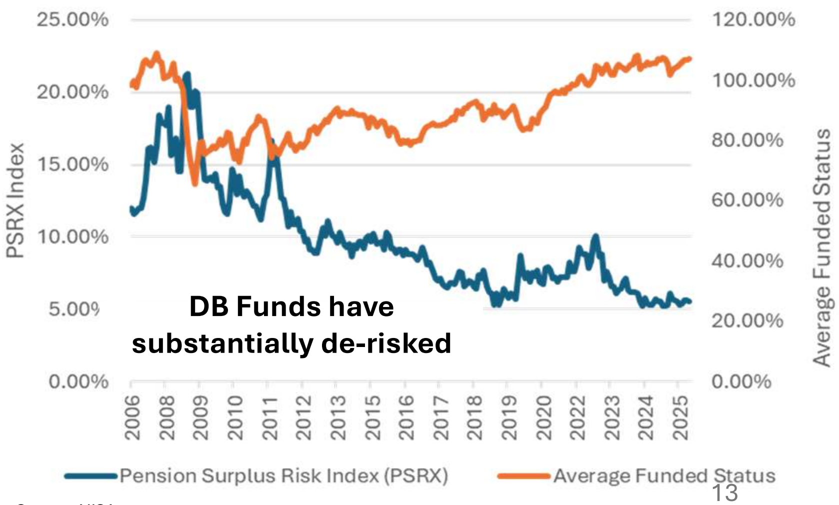
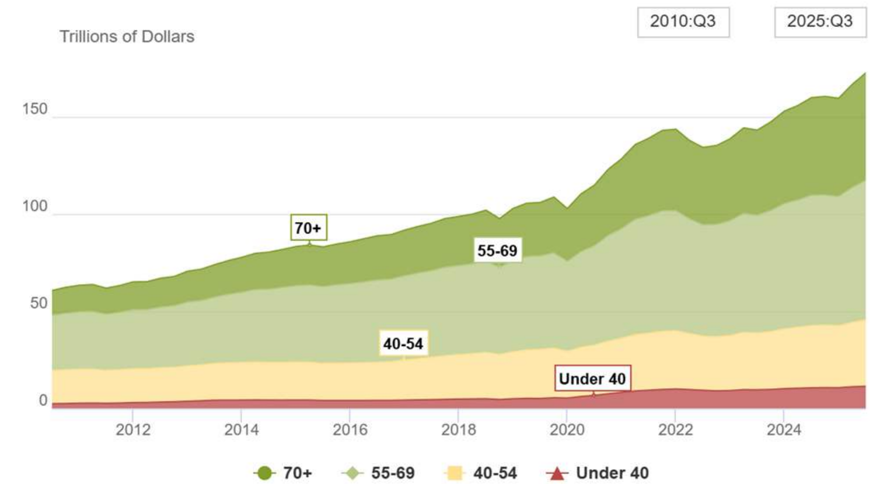


Source: NISA

Demographic support for Treasuries

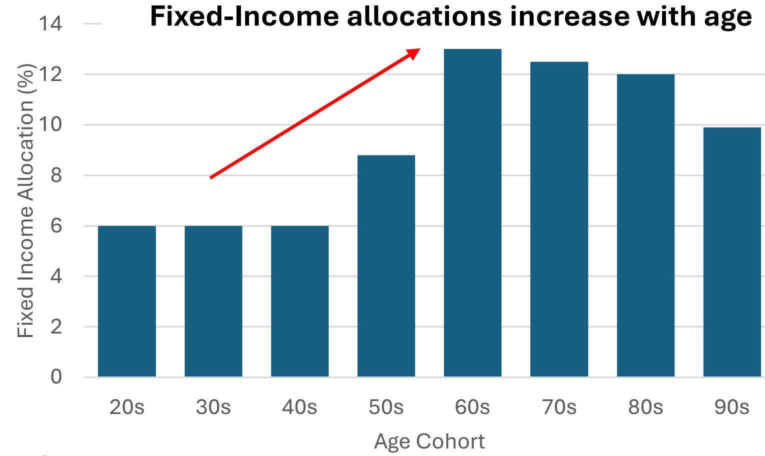
- Household wealth is increasingly concentrated in higher-age cohorts
- As people age, there is a natural movement to higher fixed-income allocations. This is particularly pronounced as people start to enter retirement
- This has the potential to create additional marginal demand for Treasuries through multiple avenues including:
  - Insurers through annuity products
  - Higher fixed-income allocations in DC funds
  - Higher contributions to fixed-income mutual funds and ETFs including target date funds
- Increasing demand from current pay retirees benefits long-run demand for intermediate Treasuries

Higher percentage of wealth in older cohorts…



Source: Survey of Consumer Finances and Financial Accounts of the United States

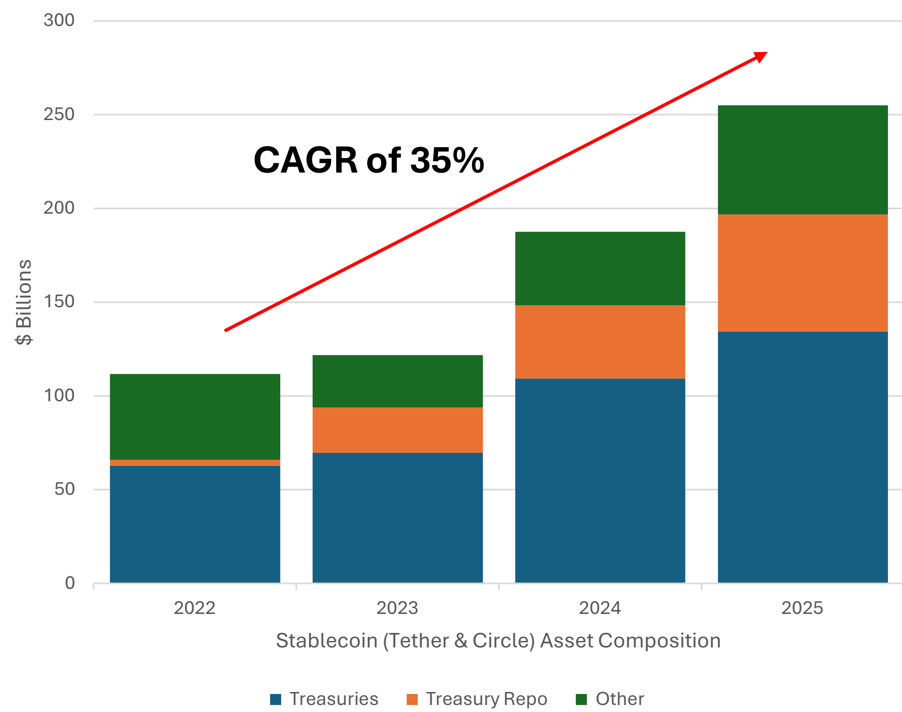
Fixed-Income allocations increase with age



Source: empower.com

Stablecoin footprint increasing…

- Stablecoins have the potential to increase demand for short-end Treasury issuance should stablecoin growth be driven by new offshore demand currently not in USD
- Stablecoin issuers currently hold <1% of Treasuries outstanding
- Major stablecoin issuers (Tether & Circle)
    - T-bills constitute 53% of assets
    - $70B increase in T-bill holdings since 2022
- Regulatory changes, including the passage of the GENIUS Act, may also contribute to significant future stablecoin issuance, creating demand for both Treasuries and Treasury Repo



Source: Tether and Circle Financials, Presenters Calculations. 2025 data as of 9/30/2025

Factors influencing demand for US Treasuries

US Treasury security utility & relative value

- Because of the unique status of the USD as the world's reserve currency and the low risk / high liquidity nature of Treasury securities, Treasuries are resilient against crowding out effects
- Maintaining or increasing Treasury utility is a key factor across all investor types. Factors include liquidity, collateral usage, duration management, fixed income market exposure, diversification benefits, and central bank reserve management
- Once those core needs are met, increasing Treasury allocations becomes more dependent on relative value considerations with the overall shift in the buyer base towards more price sensitive investors. For example:
    - Money market funds consider T-bill spreads vs an array of short-term instruments
    - Banks consider asset swap spreads against short term instruments, and RMBS product
    - Foreign private investors look at Treasuries vs domestic alternatives
    - Hedge funds will consider a multitude of relative value factors when determining Treasury positioning either outright, through curve positions, volatility strategies, or basis positions

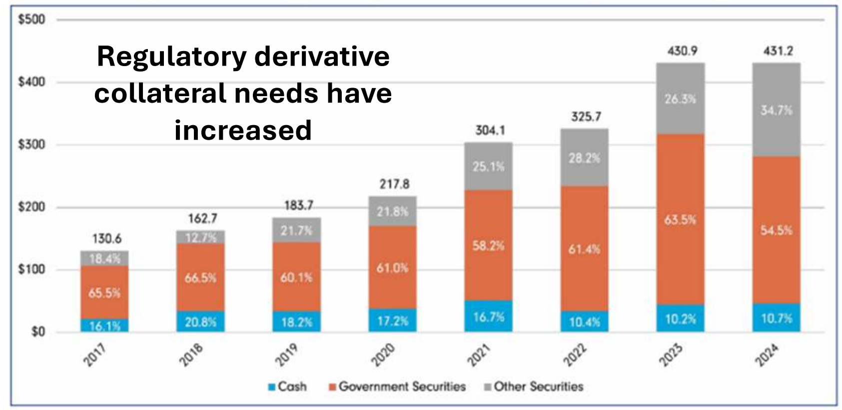
Recent initiatives support strong Treasury market liquidity

- Investors hold US Treasuries in large part due to their high liquidity through different market environments
- Since 2008, the number of primary dealers has steadily grown from 17 to the current 26, broadening distribution channels and diversifying auction demand
- The Treasury buyback program contributes to market functioning in the off-the-run sector
- Current regulatory efforts will benefit Treasury market functionality and liquidity
  - Modifications to the eSLR & GSIB will allow Banks greater capacity to intermediate a growing expected stock of Treasury issuance
  - Treasury clearing will add counterparty certainty during times of market stress and potentially create balance sheet netting benefits. How added transaction costs may impact liquidity and bid-offer under normal markets warrants monitoring

Treasuries serve a key role as collateral

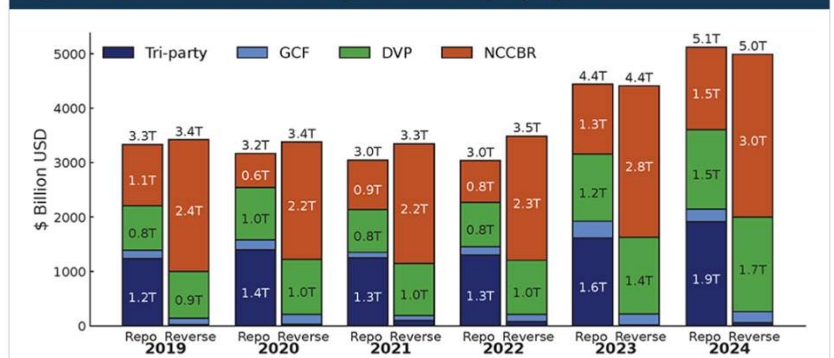
- Due to their wide acceptance as collateral for both repurchase agreements and derivatives, growth in these areas helps support demand for Treasuries
- Regulatory changes in the derivatives market after the GFC increased initial margin collateralization requirements for derivative transactions
- Efforts to tokenize collateral have the potential to increase the usage of non-cash collateral, including Treasuries, in the derivative markets
- Repo market has seen significant growth since 2017, including in the non-centrally cleared bilateral repo (NCCBR) segment
- Repo clearing and the expansion of sponsored repo will assist market functionality

Chart 7: Composition of Regulatory IM and IA Received (US$ billions)



Source: ISDA

Figure 2. Total U.S. bank and dealer repo and reverse-repo by segment



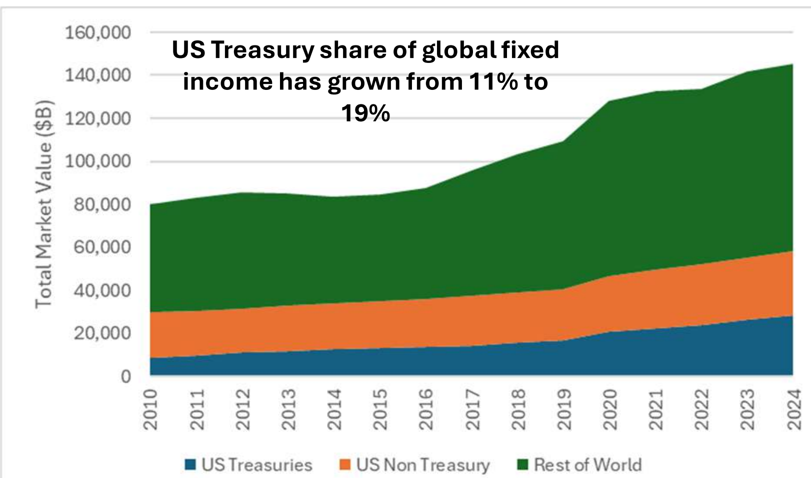
Note: Ket identifies in order from bottom to top. Volumes are gross repo and reverse repo before netting out inter-dealer repo. Appendix Table 1 provides the same data as Figure 2 but in table form, since some of the segments in Figure 2 are too small for a label.

Sources: SEC Form X-17A-5, SEC Form 10-K, OFR Cleared Repo Collection, Federal Reserve Tri-party Repo Data.

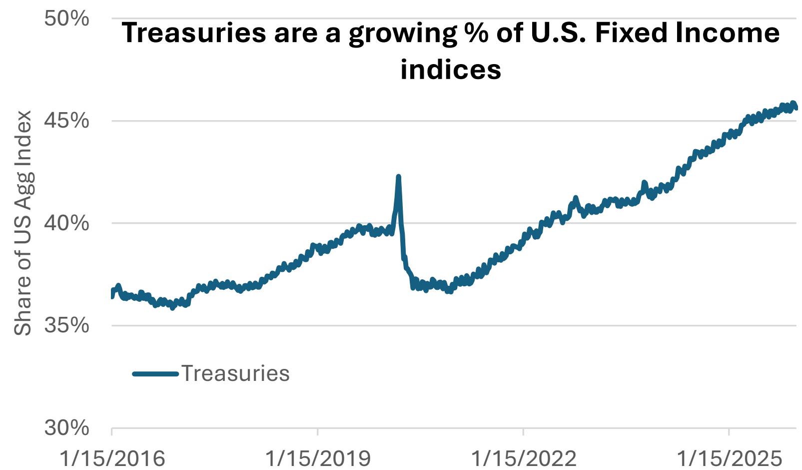
Accessible version

Growth in index funds supports Treasury demand

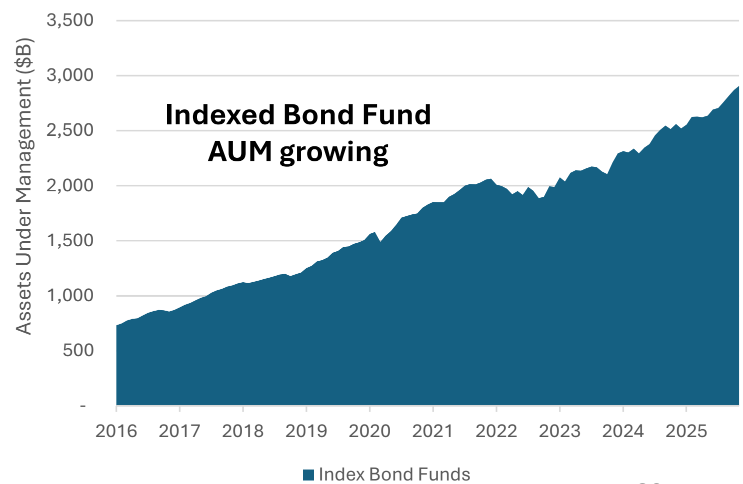
- US Treasuries have become an increasingly large segment of the US and global fixed-Income market
- Within US fixed income, Treasuries are now 46% of the Bloomberg US Aggregate Index. Also, investors have increased their usage of indexed fixed income funds
- Higher index weightings generates increased marginal demand for US Treasuries across the yield curve as investors seek fixed income exposure



Source: SIFMA



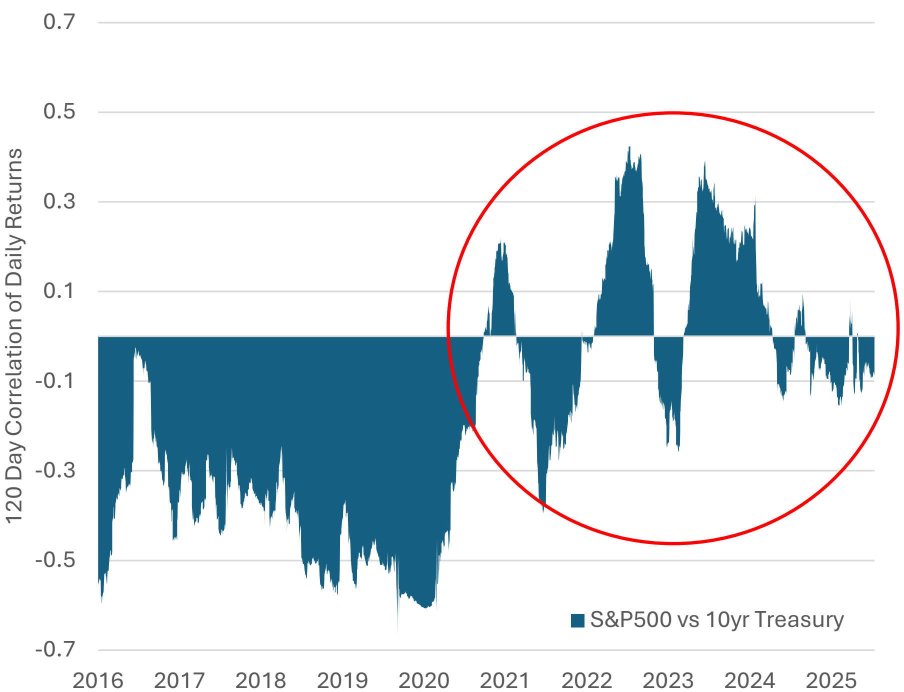
Source: Bloomberg



Source: Investment Company Institute

Treasuries as a portfolio diversification tool

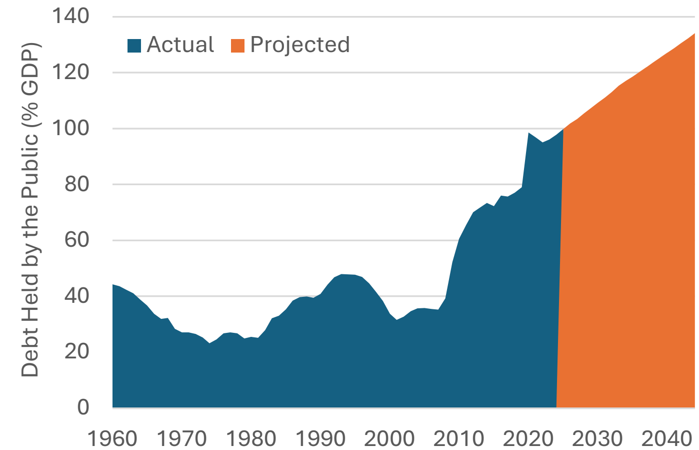
- Investors use Treasuries to diversify risk, given the historical countercyclical performance versus risky assets
- Since COVID, this correlation has become increasingly volatile with Treasuries at times being positively correlated with equity returns, reducing Treasuries' effectiveness as a risk diversifier
- Similarly, Treasuries have historically been negatively correlated with equities during periods of low inflation, and positively correlated during high inflation
- Less diversification benefit could be a headwind to demand



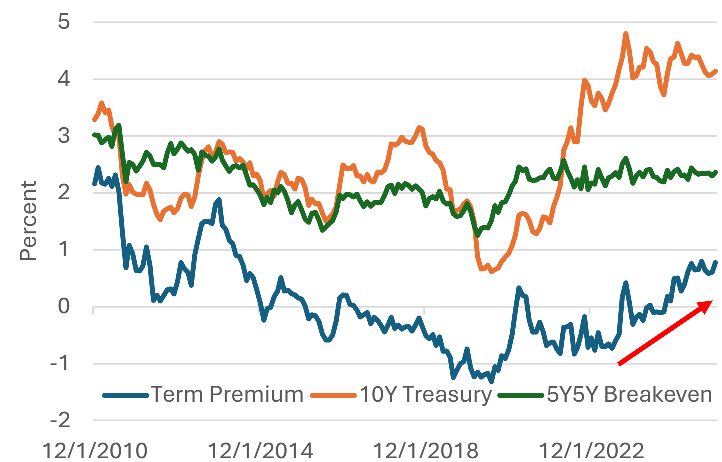
Source: Bloomberg, Presenter Calculations

Treasuries as a portfolio diversification tool

- Other factors have the potential to contribute to the volatility of correlations between Treasuries and equities
- Long-term investor concerns regarding fiscal sustainability can increase risk and term premium
    - Debt-to-GDP continues to increase, and is projected to exceed 125% by 2044 under CBO Projections
    - Offset by USD status as reserve currency and state of the Current Account
- If the Fed loses credibility and/or independence, term premium and long-term breakeven inflation could both go higher



Source: CBO



Source: Bloomberg

Potential future impacts on sectors amid structural shifts

Tenors	Federal Reserve	Foreign	Money Market	Banks	Pension & Insurance	Mutual Fund & ETF	Household
• T-bills • FRNs • Short Coupons	↑	↑	↔	↑		↑	
• Intermediate Coupons		↑		↑	↑	↑	↔
• Long Coupons		↔			↓	↑	
• TIPS						↑	

Conclusions

- Overall, demand for Treasuries continues to be robust and comes from an increasingly diversified investor base
- Shifts in the Fed SOMA portfolio composition represents a key structural shift increasing demand for T-bills. Money markets are likely to continue to be a source of demand for T-bills, and stablecoins are an emerging demand area
- Increases in demand in the intermediate part of the yield curve can potentially come from several sources including mutual funds and ETFs depending on future AUM growth, and the long-term trend toward DC pension plans
- Household demand is being supported by increased leverage. Potential future demand depends in part on the ability for hedge funds to continue to access leverage
- Demand for long maturities is mixed. Foreign private investors have held more long end exposure historically than foreign official sources, however domestic alternatives provide higher yields on a currency hedged basis. Pension DB funds, a traditional buyer of long duration, have already increased Treasury allocations to reduce their risk profile and are a smaller segment of the overall pension market
- Efforts increasing the utility of Treasuries, particularly those that increase Treasury market liquidity and increase the usage of Treasuries as collateral, can continue to benefit overall Treasury demand

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