

## Are US Deficits Nearing a Tipping Point?

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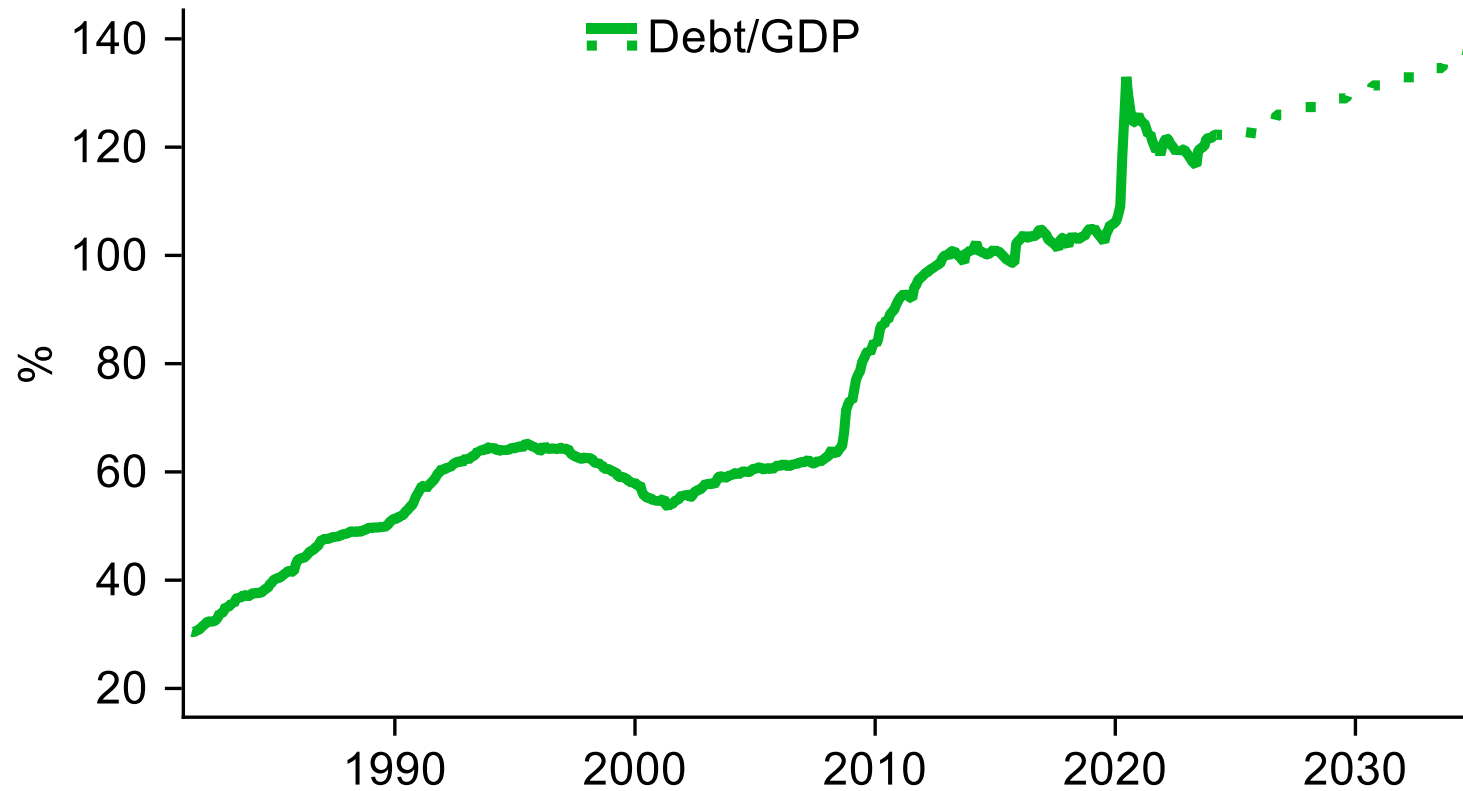
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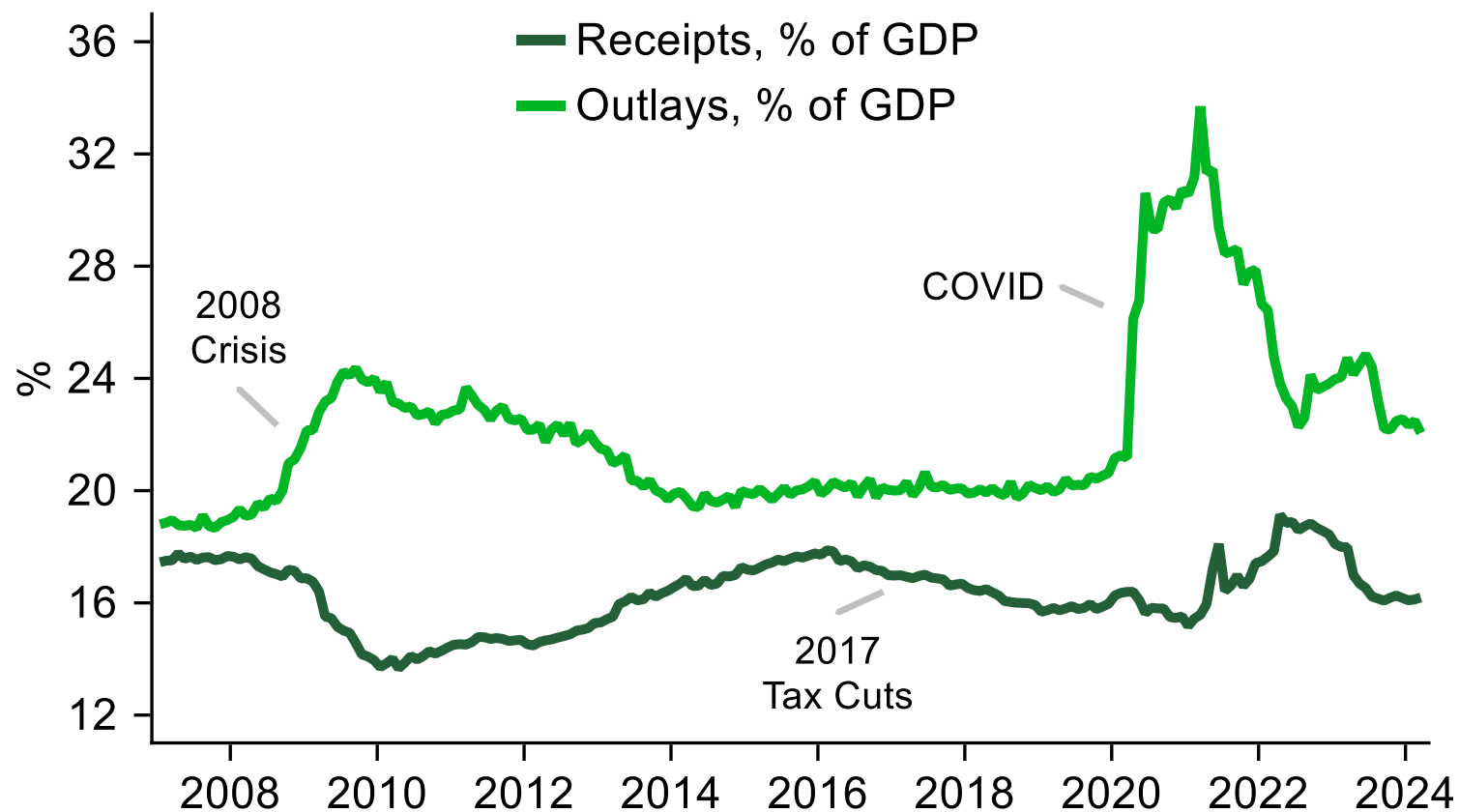
## Debt/GDP Ratio Peaked During COVID But Set to Continue Rising



Note: Total debt/GDP ratio. Projections from CBO.

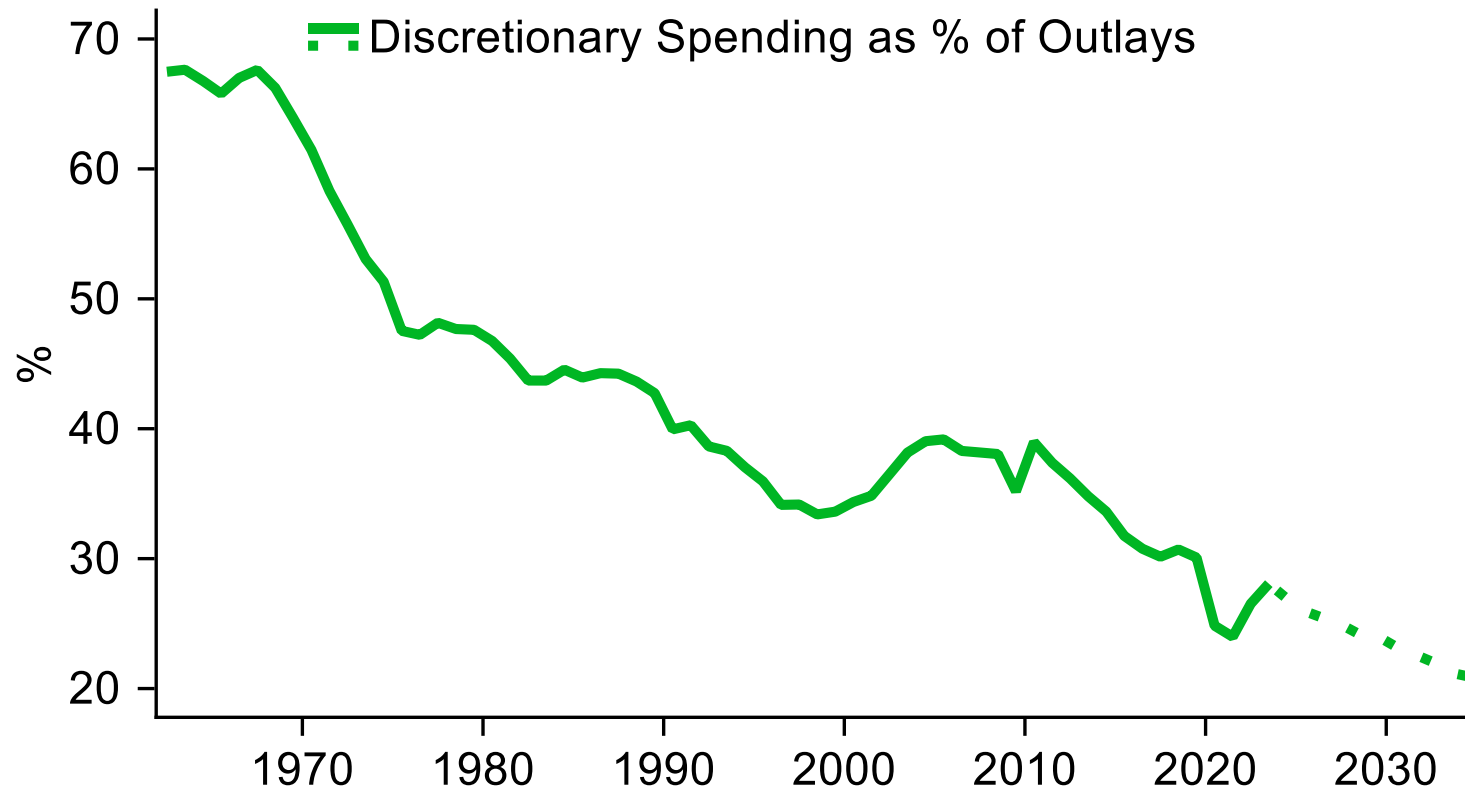
Source: Treasury, CBO, TD Securities

## Fiscal Dynamics Have Deteriorated, Skewing Deficit Risks to the Upside



Source: Treasury, TD Securities.

## Discretionary Spending Has Dramatically Decreased as a Portion of the Total Budget

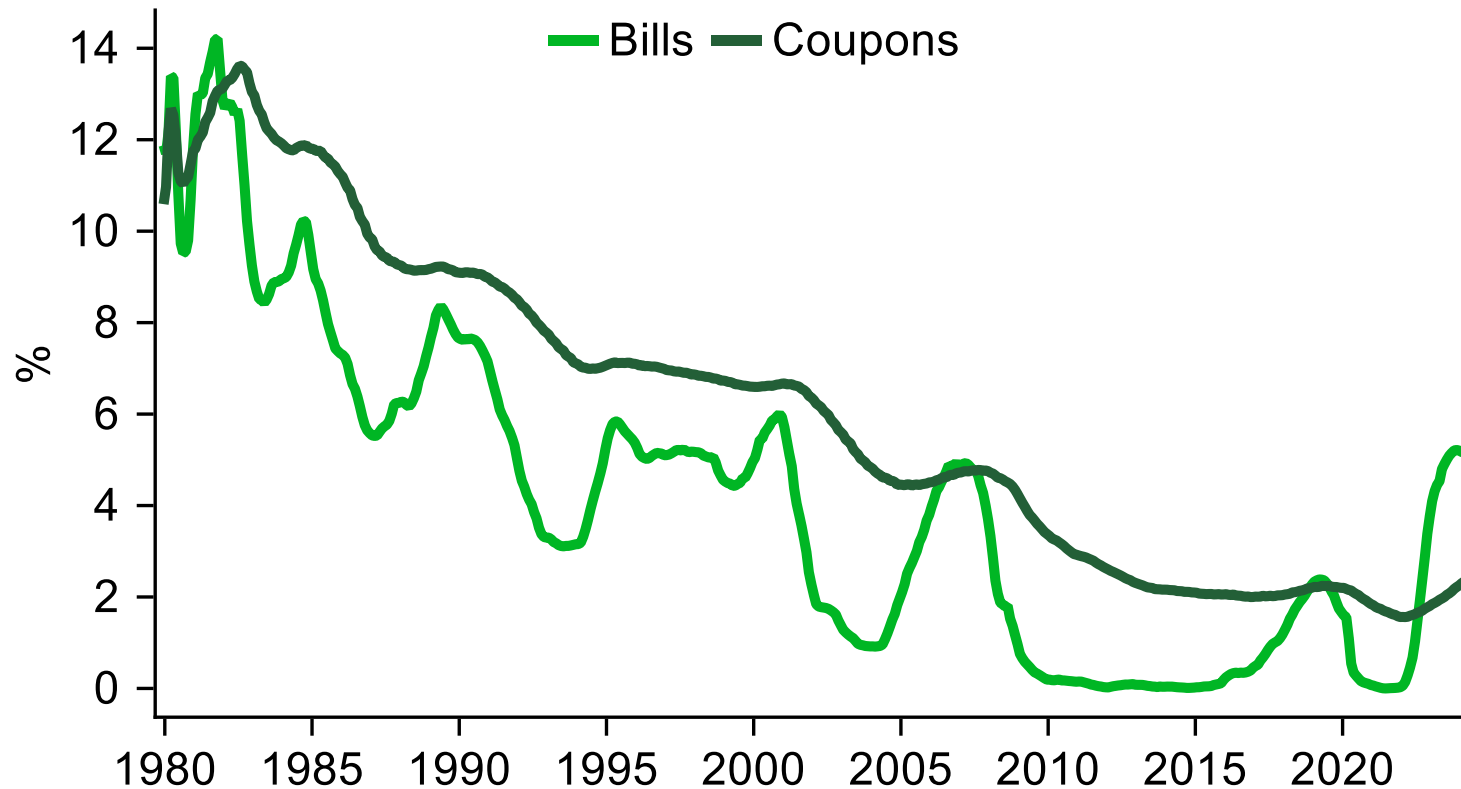


Note: Forecast is CBO projection.  
Source: CBO, TD Securities

# Interest Expense Remarkably Low Given Debt Burden



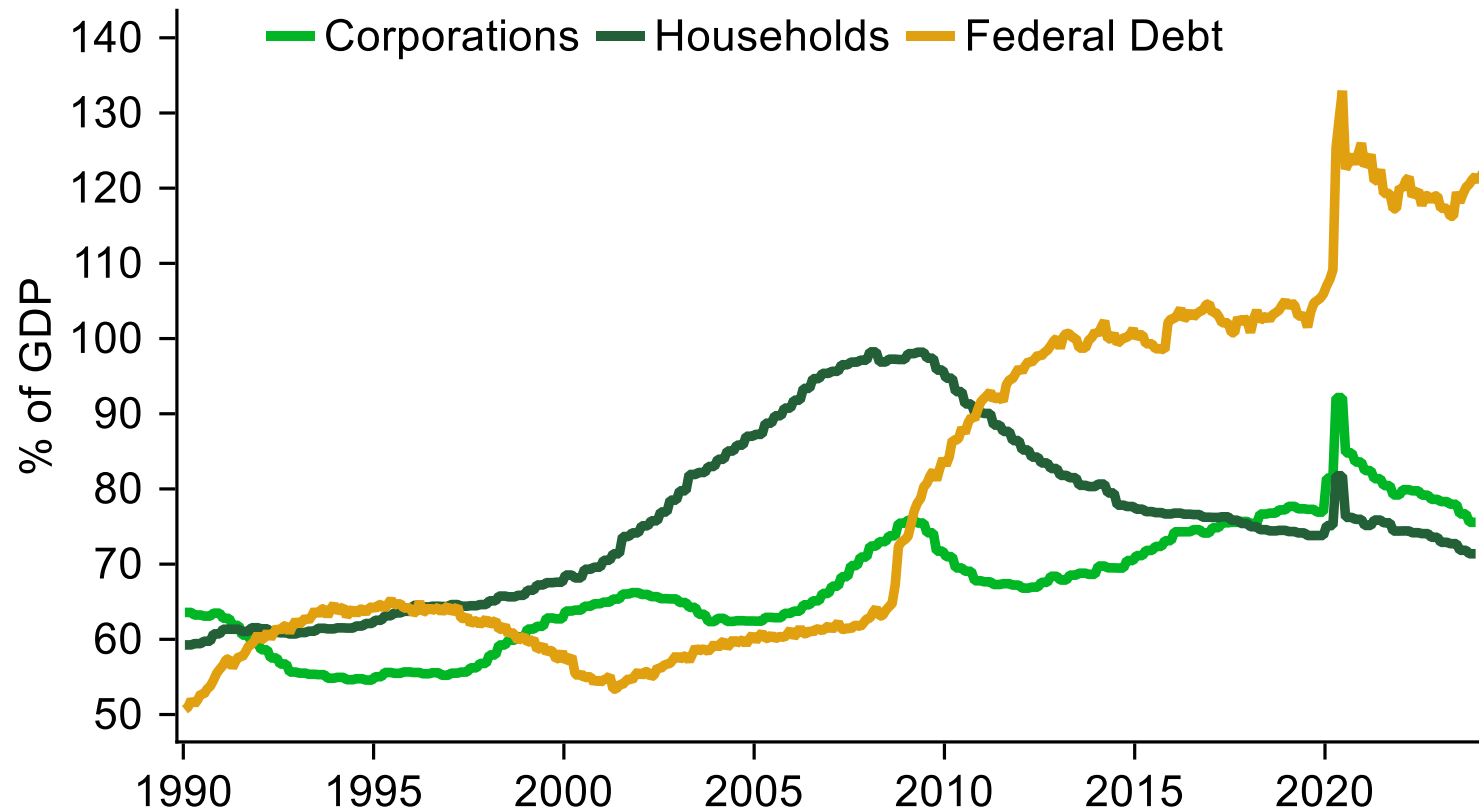
## Cost of Issuing Coupon Securities Remains Historically Low Despite Increase in Debt Burden



Note: Shows weighted average yield for bills and coupon securities outstanding.  
Source: Treasury, TD Securities



## Corporates and Households Have Delevered, But Federal Debt is Still Rising



Note: Corporate debt excludes financial institutions.

Source: Fed, BEA, U.S. Treasury, TD Securities

# Rising Deficits Create the Need for More Supply



## Slowing QT Will Help Moderate Treasury's Issuance Needs, But Deficits Will Remain High

	FY2022	FY2023	FY2024	FY2025	FY2026
Deficit	1376	1695	1800	1850	1900
Fed Runoff	150	720	580	150	0
Change in Cash Bal.	420	21	25	25	25
<b>Total Funding Need</b>	<b>1946</b>	<b>2436</b>	<b>2405</b>	<b>2025</b>	<b>1925</b>
Net Coupon Issuance	1867	1042	1737	1855	1448
Net Bill Issuance	-69	1616	668	170	477
Fed Buying	270	0	0	100	175
<b>Net Coupon Supply Net of Fed</b>	<b>1597</b>	<b>1042</b>	<b>1737</b>	<b>1755</b>	<b>1273</b>
10y Equiv Supply	2853	2475	2990	3101	3101
10y Equiv Fed Buying	222	0	0	77	135
<b>10y Equiv Supply Net of Fed</b>	<b>2631</b>	<b>2475</b>	<b>2990</b>	<b>3024</b>	<b>2966</b>

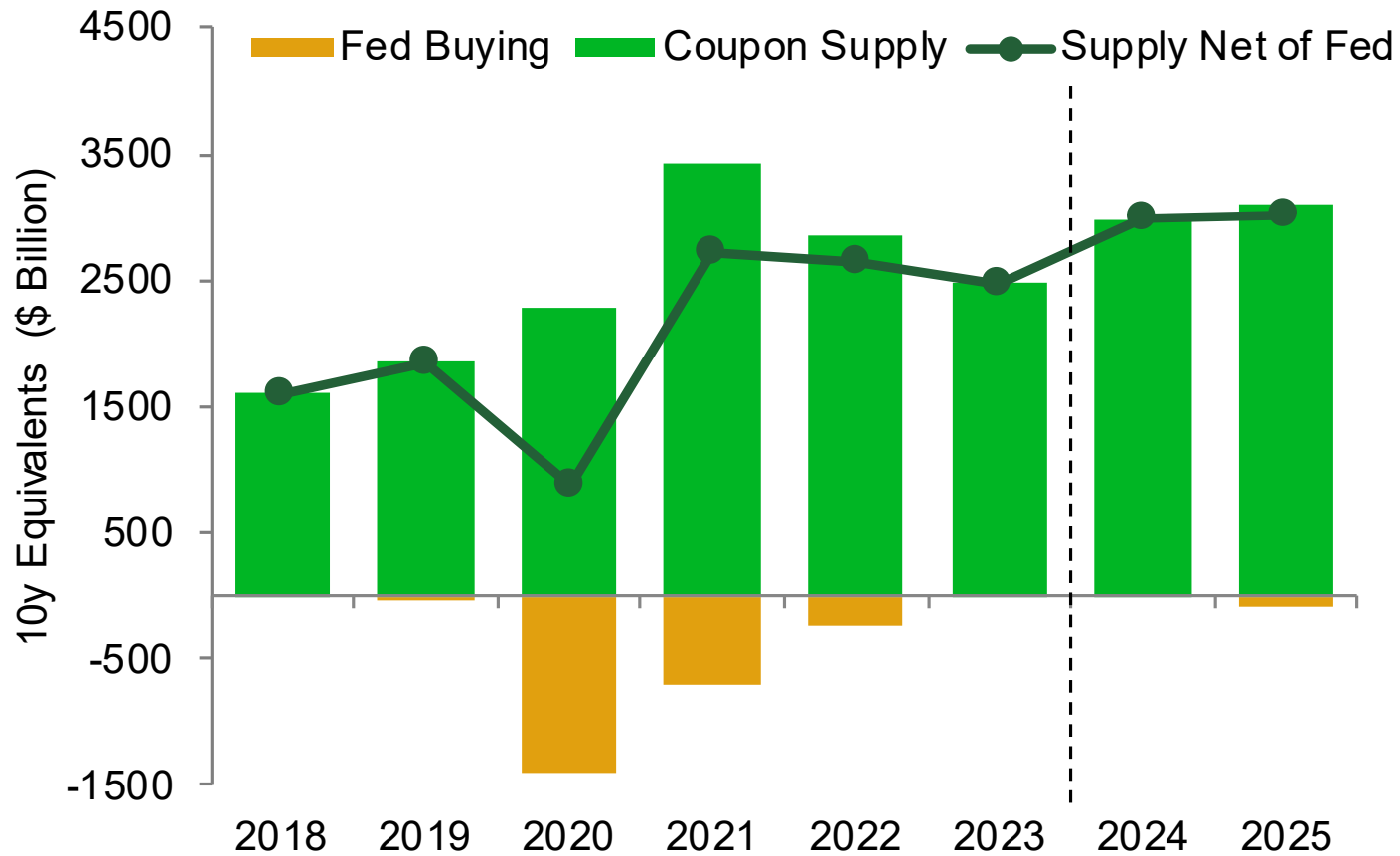
Note: All figures in billions. Issuance and deficits based on TD projections. We assume QT is tapered in June and ends in March 2025 but Fed continues to let MBS run off, replacing MBS with USTs.

Source: NY Fed, Treasury, TD Securities

# Despite Pause in Auction Size Increases, Supply Remains High



## 10y Equivalent Supply to Hit Record High in FY2024

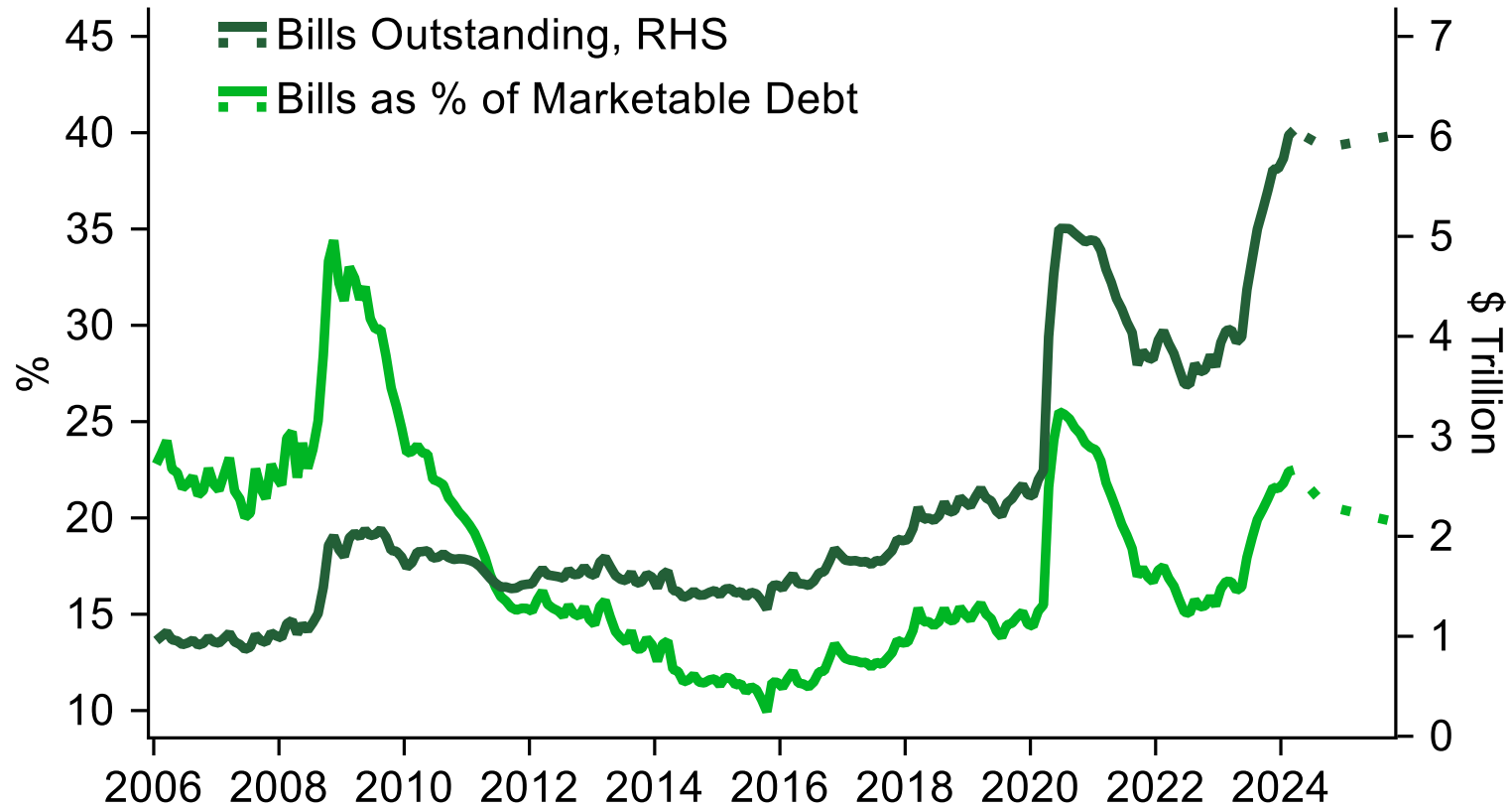


Note: Analysis uses US fiscal years. FY2024-2025 are TD Securities forecast.  
Source: NY Fed, Treasury, TD Securities





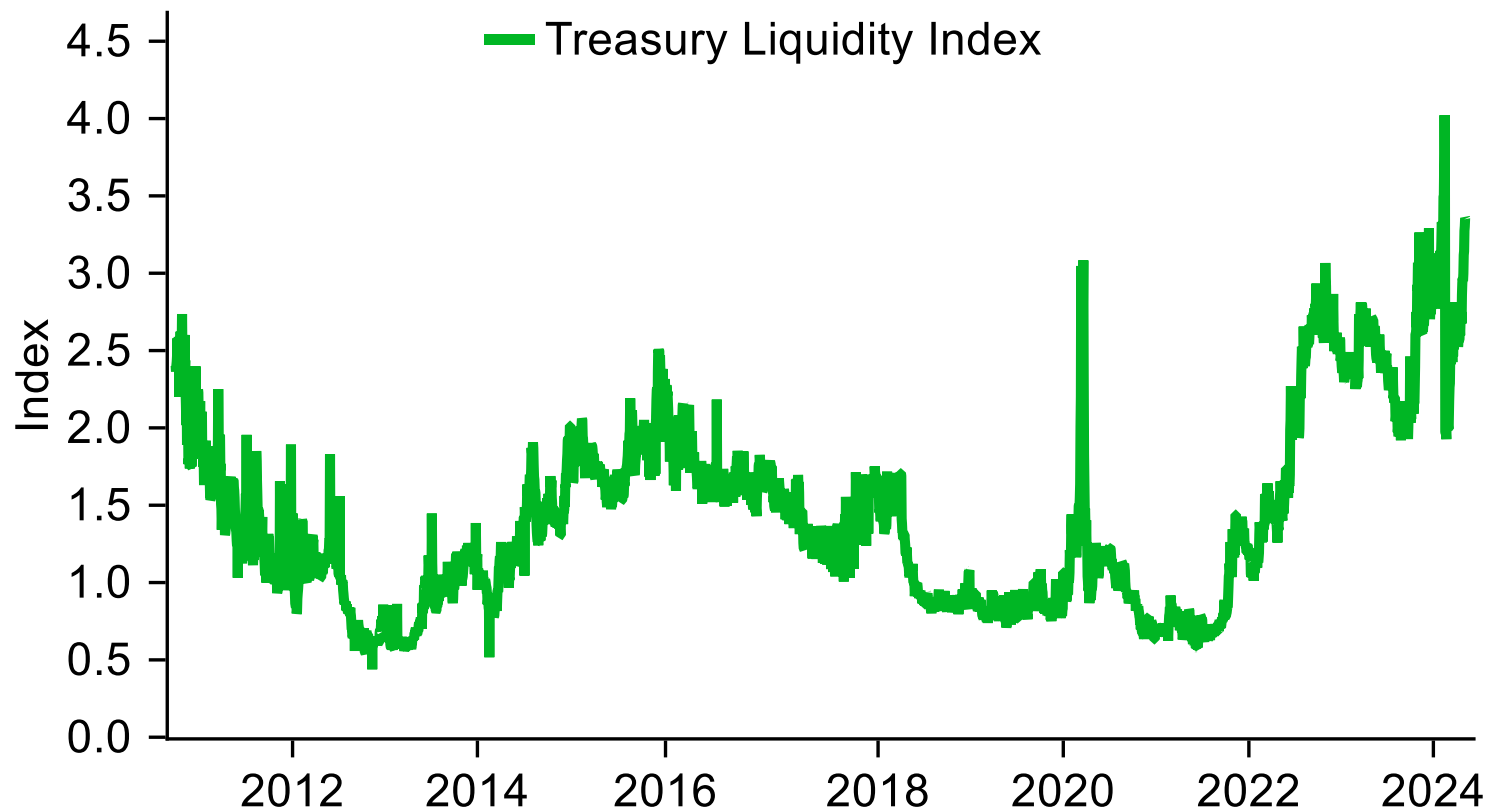
## Bill Supply Set to Expand Further as Bills Move Toward Top of 15-20% Target Range



Note: Dotted lines represent TD Securities forecasts.

Source: Bloomberg, TD Securities

## Treasury Market Liquidity Conditions Remain Strained



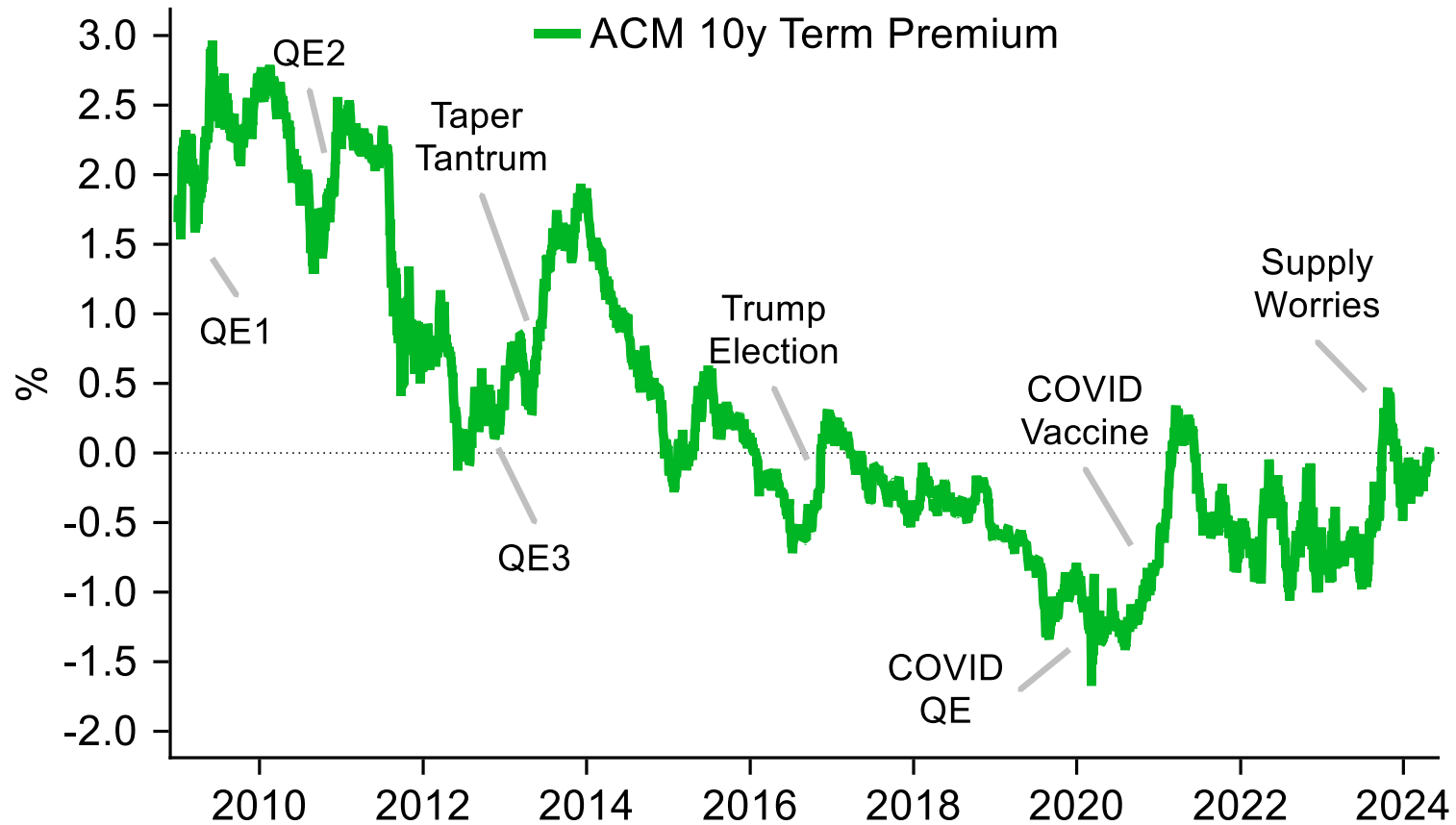
Note: Indicates RMSE of Bloomberg Treasury spline. Higher levels correlate with periods of market illiquidity.

Source: Bloomberg, TD Securities

# Term Premium Still Low, But Should Rise



## Term Premium Remains Historically Low as Global CB Balance Sheets Are Still Enormous



Source: Federal Reserve, TD Securities

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