

2026-8-25
ECO

WSJ Print Edition

Rising interest rates are a signal of trouble ahead. Artificially suppressing them heightens the danger.



Treasury Secretary Scott Bessent JIM WATSON/ AFP VIA GETTY IMAGES

Let the Bond Market Speak

By Stanley F. Druckenmiller

The Treasury Department announced on Aug. 19 that it would double the size of its long-dated bond buybacks, from \$2 billion to at least \$4 billion per operation, aimed at the 10- to 30-year sector and running from Sept. 9 through Nov. 4. The announcement came after the 30-year yield touched a 19-year high. Yields fell within minutes. By the next afternoon they had roundtripped to levels above where they started. The market's verdict was swift and correct: This wasn't liquidity management, it was price management—and a mistake far larger than \$4 billion suggests. *Note*

Treasury's announcement gave the game away. It justified the larger operations as liquidity support in sectors with "consistent strong sponsorship from market participants," but strong sponsorship is the definition of a healthy, working market. There

were no failed auctions, no dealer balance-sheet seizure, no forced unwinds, nothing resembling Treasuries in March 2020 or U.K. gilts in September 2022, the sort of genuine dysfunctional episodes that justify official action. Volatility was contained, and trading was orderly—not a malfunction but the machine doing its job. *Note*

Consider what the machine was pricing. Inflation is 3% to 4% and has been above the Fed's target since 2021. Unemployment is 4.1%, full employment by any definition. The deficit is running near 6% of gross domestic product, a number America has never before produced in peacetime at full employment. The national debt crossed \$40 trillion the same week Treasury intervened. Net interest will exceed \$1.1 trillion this fiscal year, more than the defense budget. The 10-year yield, even after the summer selloff, sits at or below the economy's nominal growth rate. That means a borrower (federal government) running 6% deficits at full employment, with above-target inflation, still funds itself at roughly the rate its economy grows. *Note*

Historically, that configuration is accommodative, not restrictive, of financial conditions. The bond market wasn't being a vigilante, as some would argue. It was being a pushover that had finally begun to clear its throat, and Treasury moved to quiet even that. *Note*

I have spent five decades trading on a simple premise: Markets aggregate information no committee possesses, and prices are how that information reaches decision makers. The long-term Treasury yield is the most important price in the world. It is also the only fiscal disciplinarian the U.S. has left. Neither party will run on entitlement reform. Both have spent the past decade expanding commitments while ignoring arithmetic. Democracies don't repair their finances because a budget office publishes a table. They repair them only when the cost of inaction becomes visible and immediate, when mortgage rates bite, when auctions tail, when the political price of a rising long bond finally exceeds the political price of touching spending. *Note*

Every basis point of artificial yield suppression is a subsidy to procrastination. Suppressed long rates sugarcoat the interest-cost projections, shrink the apparent urgency, and let incumbents assure voters the debt is someone else's problem. If Congress and the administration are unlikely to touch entitlements even with the market's signal, they are certain not to touch them without one. Whatever this operation saves in basis points, it will cost multiples in delay.

Yield management always begins as a technical operation and ends as a policy commitment. From 1942 to 1951, the Federal Reserve capped long Treasury yields to finance World War II. The cap outlived the war, financed deficits with printed money, and fueled double-digit inflation. It took the 1951 Treasury-Fed Accord to dismantle the cap, followed by years of financial repression that quietly taxed a generation of savers. U.S. policymakers built the wall between debt management and price management for a reason. This intervention starts dissolving it.

Within a day of the announcement, Treasury Secretary Scott Bessent indicated the operations could grow beyond \$4 billion, and analysts observed that Treasury can double them again and again. When the bond market didn't respond to this threat, senior Treasury officials told reporters that the department could use the Treasury General Account to intervene. Once markets believe Treasury is defending a price, every rise in yields becomes a test of official resolve, and the operations must grow to survive the tests.

There is a quieter cost, too. Buying back long bonds while funding the purchases with bills shifts duration, or long-term interest-rate risk, out of public hands—economically, a small dose of quantitative easing run out of the Treasury rather than the Fed, easing financial conditions while inflation sits above target. These enlarged operations happen to run through the final stretch of a midterm campaign. Debt management that even appears to follow the political calendar spends the one asset that took two centuries to accumulate: the credibility of the Treasury market. That asset doesn't regain its value so easily.

During the debt-ceiling fight in 2011, I said a brief technical delay in payments would be terrible, but less terrible than another decade of cankicking without reform. In 2013, Geoffrey Canada and I toured college campuses calling the entitlement trajectory what it is: generational theft. Transfers that accounted for roughly a quarter of federal outlays in 1960 consume 70% today. I told students, "I love entitlements, but I want them for you guys," when they turn 65, not merely for my generation at their expense. In 2023 I said Washington was spending like drunken sailors, with federal outlays up from 20% of GDP before Covid to 25% after, and I called Secretary Janet Yellen's failure to term out the debt at generationallow rates the biggest blunder in Treasury history. Every household and corporation in America locked in low rates, and the one borrower that needed to most, didn't.

At prevailing rates, interest expense reaches 4.5% of GDP by 2033 and 144% of all discretionary spending by 2043. We are tracking those markers early. Anyone who tells you entitlements won't be cut is lying—not about the outcome but about who decides it. Either we restructure the promises deliberately, on our terms, protecting those who most need them, or the bond market restructures them for us, all at once, on its terms.

The defense of the buybacks writes itself: It is a routine tool, introduced in 2024 for liquidity and cash management, trivial against a marketable debt stock approaching \$30 trillion. All true but beside the point. Routine operations aren't announced off-cycle, at double size, on the heels of the long bond's hitting a two-decade high, with a signal that they can grow without limit. Judge an intervention by what it responds to. This one responded to a price, not to plumbing, which is exactly how the market read it, and why the effect evaporated within a day. You can't buy your way out of a solvency conversation with liquidity tools. You can only postpone the conversation and raise the eventual price.

What should happen instead is straightforward. Return buybacks to their stated purpose: small, scheduled, off-the-run liquidity operations announced at quarterly refundings, never off-cycle responses to yield levels. Term out the debt honestly and pay the price the market sets. If the 30-year must trade at 5.5% to clear, that isn't a crisis. It is an invoice. Then do the only thing that durably lowers long-term yields: address the primary deficit. Reform entitlements gradually and honestly, through means testing, indexing changes, eligibility adjustments phased in over decades—so that the burden is shared across generations instead of dumped on the youngest.

The reward is enormous: A credible fiscal package would do more for the long end of the curve than a buyback program 1,000 times this size.

Governments defending prices against fundamentals always lose. The only variable is how much they spend before conceding. The U.S. shouldn't put itself on the wrong side of that trade, not with the most important price in the world, and not when that price is trying to say the one thing Washington most needs to hear: Let the bond market speak.

Mr. Druckenmiller is chairman and CEO of Duquesne Family Office LLC.

No p93

(3)