## *Truss the Process*

The financial press has focused considerable attention on rising bond yields this week, with 30-year Treasury yields touching 5.1% and prompting comparisons to crisis periods. Before drawing parallels to Liz Truss's brief tenure or invoking bond vigilante narratives, the data suggests a more measured assessment is warranted.

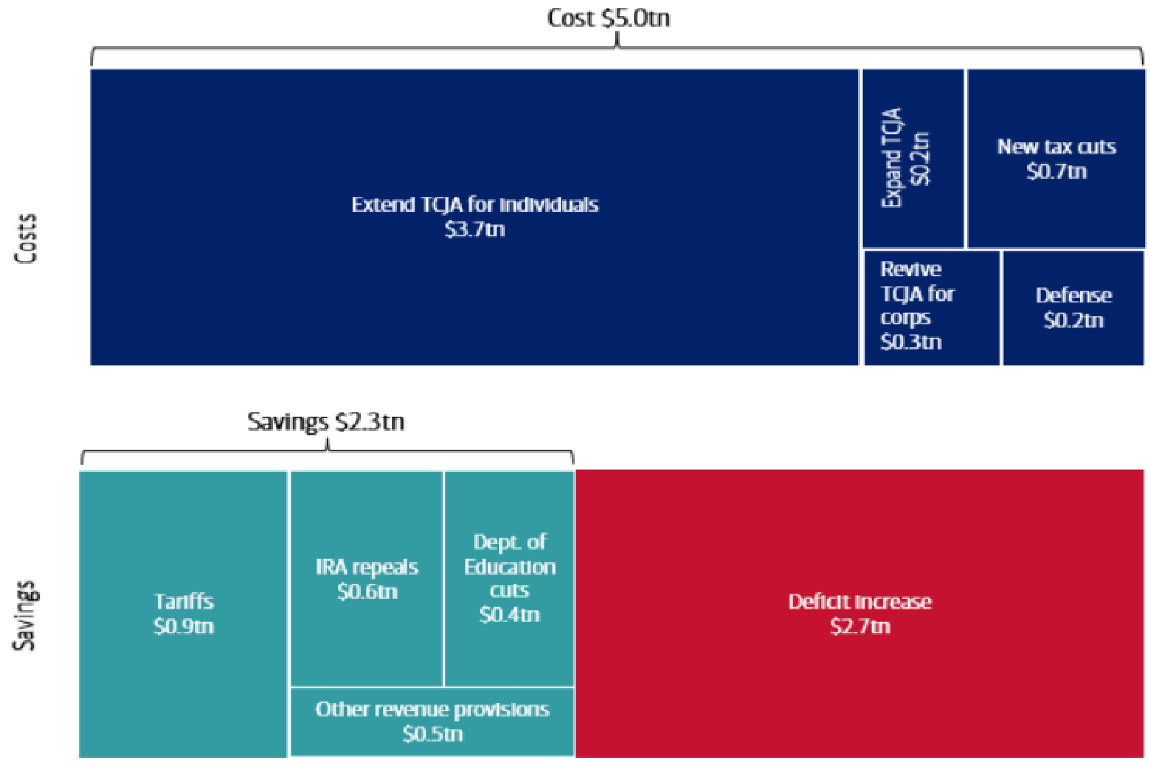
The broader Treasury market performance tells a different story than the headlines suggest. Intermediate-term government bonds are up 2.5% year-to-date and delivered positive 5.5% returns over the past twelve months. The average weighted maturity of outstanding Treasuries sits around six years, and from that perspective, we're experiencing a modest 1.9% drawdown from April highs rather than systematic distress. In fact, yields are lower today at 10 of the 14 points on the yield curve than where they were on Election Day last year.

[1]

This doesn't diminish the fiscal policy questions at hand. Trump's tax legislation would add nearly $4 trillion to the deficit over the next decade according to Congressional Budget Office estimates. The administration's growth projections of 3% annually versus the CBO's 1.8% echo optimistic assumptions we've seen before. Interest on the public debt exceeded $1 trillion for the first time during the fiscal year ended September 30, making it the second-largest federal expenditure after Social Security.

[1] Chart provided by Bloomberg database. Data as of 5/23/2025.

**Chart 14: The "Big Beautiful Bill" in numbers**
Costs & Savings estimate of 2025 House reconciliation bill over the next 10 years




**Source:** BofA Global Investment Strategy, Committee For a Responsible Federal Budget [2]

## A Teachable Moment

The Liz Truss comparison, while instructive, reveals more about structural differences than similarities. Truss's downfall came from unfunded tax cuts that sent gilt yields soaring 150 basis points in days, forcing pension fund liquidations and mortgage market disruptions. Britain's vulnerabilities—current account deficits, pension system architecture, and smaller capital markets—created susceptibility to sudden capital flight that doesn't characterize the United States.

America operates with reserve currency status, deeper capital markets, and different institutional frameworks. When Federal Reserve Governor Christopher Waller observes that market participants are examining the fiscal legislation with concern, he's describing normal market functioning rather than crisis dynamics. The bond market's ability to price fiscal risk represents proper price discovery, not dysfunction.

The "reverse TARP moment" concept, where markets pressure Congress away from fiscal expansion rather than government rescuing markets, captures an interesting dynamic but likely overstates current conditions. In 2008, TARP represented extraordinary government intervention to stabilize frozen markets. Today's environment reflects markets performing their traditional role of pricing risk into longer-duration securities while shorter-term instruments remain well-anchored.

If anything, you could make a credible claim that since the election, we've seen stagflation concerns expressed across the yield curve. But the twist steepened curve we have today since the election is a modest stagflation expression at best. Not something that should be ringing alarms quite yet.

[2] Chart provided by BofA.

This assessment doesn't dismiss fiscal concerns. The Committee for a Responsible Federal Budget estimates the full tax package could reach $7.75 trillion above baseline over ten years. DOGE's spending cuts, while politically significant, pale beside the revenue impact of extending and expanding tax reductions. These figures warrant serious consideration in any fiscal framework.

The endgame could unfold along several paths. Congress might blink first, scaling back tax cuts as yields approach 5.5% and mortgage rates follow suit. Alternatively, we could see a more dramatic Truss-style capitulation if pension funds or regional banks face liquidity stress. The third possibility—that America's reserve currency status and deeper capital markets allow us to muddle through—seems increasingly optimistic.

History suggests that bond markets eventually win these confrontations. James Carville's quip about wanting to be reincarnated as the bond market—"because you can intimidate everybody"—has aged remarkably well.[3] Whether Trump's fiscal ambitions survive contact with 5% yields remains the defining question of 2025. The UK precedent suggests they won't, but American exceptionalism has been known to defy gravity longer than physics would suggest possible.

The reckoning, when it comes, will be educational for all involved.

[3] The James Carville line refers to a famous quote from the 1990s when Carville, who was Bill Clinton's political strategist, said something along the lines of: "I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."

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