

Can you take me the US debt curve higher?

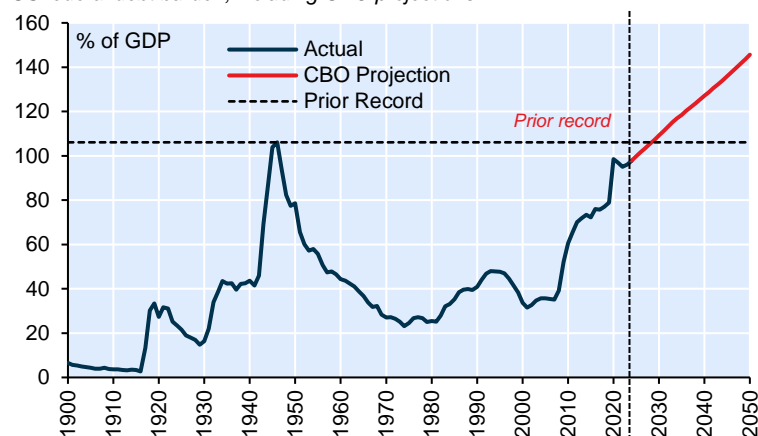
By Ethan Currie, Taylor Schleich & Warren Lovely

The Congressional Budget Office (CBO) is pointing to an even higher US federal debt load, as per a fresh set of [long-term projections](#). In their 'extended baseline' forecast, the CBO outlines a growing debt burden, which already resides near the record level set following WW2 (Chart 1). If these projections are any guide, that record is set to be beat as soon as 2029 and rise even higher thereafter. In fact, these longer-run estimates have been steadily revised higher throughout the years (Chart 2). Take the 2030 debt projection for example, which in 2015 was expected to be 85% of GDP. That's ~24 percentage points (or \$7.8 trillion) less than where the CBO sees the 2030 debt load in their latest forecast. It's worth noting too that this burden is likely to get worse, as the CBO baseline assumes that provisions outlined in the 2017 Tax Cuts and Jobs Act are to lapse. A higher interest rate scenario would push the debt burden even higher (Chart 3). To be clear, the CBO projects a deeper primary deficit (ex. interest payments) in the case of extended tax measures, which may help explain why the US administration is keen to source additional revenue from tariffs. Over

the four-year term spanning 2025-29, this would require ~US\$1.1 trillion in tariff revenue to offset the tax cuts. If you consider that the US imported \$3.3 trillion of goods last year, this primary deficit would need to be funded by an average effective tariff rate near 8.5% over that term – the highest since the 1940s. And while that figure isn't outlandish considering the currently proposed / implemented tariffs, it does boldly assume that imports remain constant and economic activity is unaffected. In other words, we're skeptical that tariff revenues could completely offset extended tax regimes, ultimately leading to a greater debt burden and larger UST supply. The question is: Does it matter to investors? While term premia are higher now than during the pandemic or in the years before it, they are relatively low on a longer-term basis (Chart 4). Granted, if the anticipated renewal of earlier Trump tax cuts are not offset by marginal revenue (as seems likely) and/or spending is not reined in, investors should probably demand more compensation for UST duration risk as treasury supply would need to ramp up.

Chart 1: US federal debt is rising at an alarming pace...

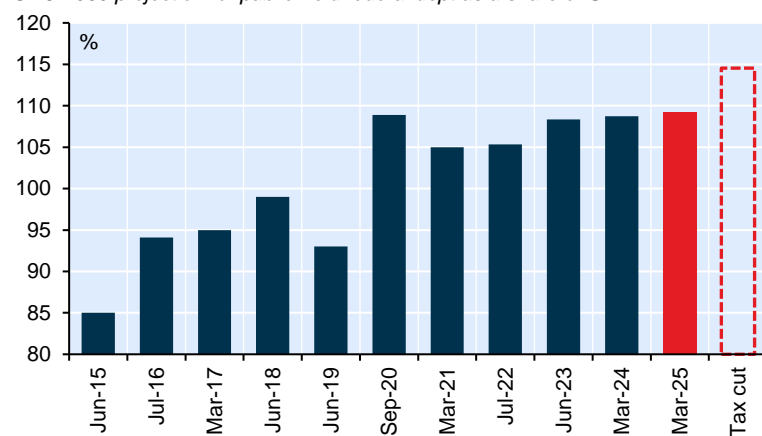
US federal debt burden, including CBO projections



Source: NBC, Bloomberg, CBO | Note: CBO projection from March 2025 extended baseline

Chart 2: ...and that's without the renewal of tax measures

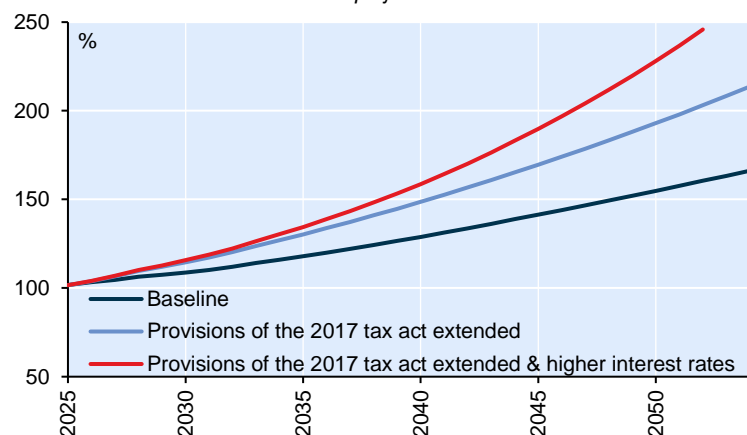
CBO 2030 projection for public-held federal debt as a share of GDP



Source: NBC, CBO | Note: Horizontal axis shows month of extended baseline projections. Last bar is projection in alternative scenario whereby provisions of the 2017 tax cut are extended

Chart 3: A tax cut extension likely to increase UST supply...

CBO extended baseline + alternative projection for debt as a share of GDP



Source: NBC, CBO | Note: Baseline is from March 2024 projections

Chart 4: ...which risks pushing the term premium higher

Adrian, Crump & Moench estimate of the 10Y UST term premium, since 2010



Source: NBC, Bloomberg | Note: Bolded line is 3M smoothed, lighter line is actual reading



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