Yardeni Research

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Morning Briefing

Trump & Bessent Versus Powell & The Bond Vigilantes

Check out the accompanying chart collection.

Executive Summary: President Trump is determined to lower the interest paid on government debt one way or the other. One way is replacing Fed Chair Powell with a Trump loyalist who tries to convince the rest of the FOMC that the federal funds rate must fall, the data be damned. Another involves replacing maturing long-term Treasury bonds with short-term Treasury bills until long-term bond yields fall enough to refinance advantageously. Such "Yield Curve Control" requires the cooperation of US Treasury Secretary Bessent (which Trump has) and the Bond Vigilantes (which he doesn't). Is it a clever way to lower the federal government's net interest outlays or is it a catalyst to capital markets turmoil? ... Also: Dr Ed reviews "The Four Seasons" (++).

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US Debt I: Trump vs Powell. President Donald Trump wants lower interest rates. He blames Fed Chair Jerome Powell for keeping them too high. He has been saying so since his first term in office as President. He said so again on June 27: "I think we should be paying 1% right now, and we're paying more because we have a guy who suffers from, I think, Trump Derangement Syndrome." That's after he reiterated that "I'd love him to resign if he wanted to; he's done a lousy job."

Trump has also been frustrated by the Bond Vigilantes. On April 9, he was forced to postpone imposing his April 2 "Liberation Day" reciprocal tariffs on America's trading partners for 90 days after bond yields spiked on the resulting turmoil in the capital markets (*Fig. 1*). He acknowledged as much that same day (April 9) when he said, "I was watching the bond market. The bond market is very tricky; I was watching it. But if you look at it now, it's beautiful. The bond market right now is beautiful. ... I saw last night where people were getting a little queasy."

If the Fed were to lower interest rates, Trump's expectation is that the entire yield curve would decline, saving the US federal government "hundreds of billions of dollars." Last week, on his Truth Social site, Trump shared a handwritten note he wrote to Powell. "You are, as usual, Too Late," he wrote. "You have cost the USA a fortune and continue to do so. You should lower the interest rate by a lot! Hundreds of billions of dollars being lost! No inflation."

However, Trump also realizes that bond yields wouldn't necessarily follow short-term interest rates downward: After what happened in early April, he knows that the Bond Vigilantes could spoil his victory by pushing bond yields higher.

That's what happened last year from September through December when the Fed cut the federal funds rate four times by 100bps in total (*Fig. 2*). The 10-year bond yield (and mortgage rates) rose by 100bps (*Fig. 3*). The Bond Vigilantes recognized that the economy wasn't as weak as Fed officials thought at the time. We did too, and we predicted that the bond yield would rise in response to the Fed's unwarranted easing.

US Debt II: Trump's Gambit. Trump has a plan for dealing with Powell and the Bond Vigilantes. Last week on Sunday, June 29, in a pre-taped interview with Maria Bartiromo on her Fox News show *Sunday Morning Futures*, he said, "I don't want to have to pay for 10-year debt at a higher rate," when talking about financing the US government debt. When Maria asked the President how he was going to deal with the $9 trillion in debt that is due this year, Trump said he was going to refinance it as short-term debt because "we have a stupid person" at the Federal Reserve. He added, "Then we're gonna get somebody into the Fed who's going to be able to lower [the rates]." He noted the rates should be at 1% or 2%: "You know, if you look at Switzerland, they're the lowest right now. They're at much less than one point, and frankly we should be there, too. …"

So according to this plan, the Treasury will issue more Treasury bills and fewer notes and bonds over the rest of the year through next year until Trump appoints the next Fed chair, who then will lower interest rates so that the maturing Treasury bills can be refinanced with longer-maturity debt at the then-lower interest rates. Brilliant!

Not so fast: It would be brilliant except for a couple of loose ends:

(1) Fed Chair Jerome Powell's term as Fed chair expires on May 15, 2026. However, he could stay on as a Fed governor until his term in that position expires on January 31, 2028. Fed Governor Adriana D. Kugler's term expires on January 31, 2026. Trump could fill her

open position with someone outside the current Fed roster, such as Treasury Secretary Scott Bessent or another Trump loyalist, including current Fed Governor Christopher Waller.

But Trump loyalist or not, the next Fed chair will still need to work with the other 11 voting members of the Federal Open Market Committee to make monetary policy decisions. In the past, Fed chairs have succeeded in persuading the majority of their voting colleagues on the Federal Open Market Committee to vote for their policy stances. There rarely have been any dissenters, and when there were dissenters, they were few in number (one or two).

A Trump loyalist as Fed chair might have more dissenters or even more than enough of them to vote for a policy stance contrary to the one supported by Trump's Fed chair. That would seriously weaken the power of the Fed chair and raise concerns about the internal conflict with the Fed.

(2) In addition, if Trump's loyal Fed chair replacement manages to deliver rate cuts when they are not justified by the incoming data, the Bond Vigilantes might do what they did in late 2023, i.e., push bond yields higher. The Treasury might be forced to continue issuing more Treasury bills in the hopes that a reduced supply of Treasury bonds would bring their yields down. But the Bond Vigilantes might push back, recognizing that lower bond yields would cause the Treasury to rapidly increase the supply of bonds.

US Debt III: Primer on US Treasury's Quarterly Refunding Statement. If the US Treasury proceeds with Trump's "Yield Curve Control" (YCC) plan, we will find out about it at the end of this month. The next quarterly refunding announcement is scheduled for 8:30 a.m. on July 30, 2025, with financing estimates released on July 28, 2025.

Here is a brief primer on the US Treasury's debt management process:

(1) The US Treasury typically issues an overview of its funding needs a few days before the Quarterly Refunding Statement. This is released as the "Treasury Financing Estimates," usually on the Monday prior to the full Quarterly Refunding Announcement, which is typically made on the first Wednesday of February, May, August, and November.

The US Treasury's Quarterly Refunding Statement is a critical component of its debt management strategy, outlining how the federal government plans to finance its borrowing needs through the issuance of Treasury securities. The statement provides detailed plans for auctions of notes, bonds, Treasury Inflation-Protected Securities (TIPS), and Floating Rate Notes (FRNs) to refund maturing securities and raise new cash. It also includes updates on borrowing estimates, buyback programs, and other debt management policies.

(2) Treasury debt managers solicit input from primary dealers (institutions that trade directly with the Federal Reserve) and the Treasury Borrowing Advisory Committee (TBAC), a group of market experts. These discussions inform decisions on auction sizes, maturities, and debt management strategies.

(3) The Treasury aims to issue debt in a “regular and predictable” manner to minimize borrowing costs over time and ensure market liquidity. This includes balancing short-term (bills) and longer-term (notes and bonds) securities to meet fiscal needs while managing interest-rate risks.

(4) The statement specifies the size and type of notes and bonds to be auctioned in the upcoming quarter to refund maturing debt and raise new cash. The balance of financing needs is met through weekly bill auctions, cash management bills, and monthly TIPS and FRN auctions.

US Debt IV: By the Numbers. Marketable US Treasury debt held by the public rose to $28.6 trillion during May 2025 (*Fig. 4*). The ratio of US debt to nominal GDP rose to 95.3% during Q2-2025 (*Fig. 5*). During May, the pubic held $14.9 trillion of US Treasury notes, $6.0 trillion in bills, $5.0 trillion in bonds, and $2.0 trillion in TIPS (*Fig. 6*). So notes accounted for 52.1% of the marketable debt outstanding, bills were 21.0%, bonds were 17.5%, and TIPS were 7.2% (*Fig. 7*). At 21.0%, the share of Treasury bills in marketable Treasury debt held by the public is already above the TBAC’s recommended range of 15.0%-20.0% (*Fig. 8*).

US Debt V: Brief History of Treasury’s Yield Curve Control. Janet Yellen, US Treasury secretary during the Biden administration, pioneered the Treasury’s YCC. On Yellen’s watch, the debt that the Treasury department issues was downgraded by Fitch Ratings on August 1, 2023. On November 10, 2023, Moody’s maintained its Aaa rating but changed the outlook on the US credit rating from stable to negative. Yet on Monday, November 13, Yellen said she disagreed with Moody’s decision and countered that the Biden administration is “completely committed to a credible and sustainable fiscal path.”

The US Treasury announced a significantly larger borrowing need in late July 2023, projecting a net $1.007 trillion in bond sales for Q3, the largest ever for that period. This surge in supply overwhelmed demand, driving bond prices down and yields up, as investors demanded higher returns to absorb the additional debt. The 30-year bond auction on

August 10, 2023 showed signs of weak demand after the Fitch downgrade on August 1. The five-year note auction on September 12 was also poorly received.

On October 26, 2023 at an *event* in Bloomberg's Washington office, Yellen dismissed the notion that bond yields were rising just because the Treasury's financing needs had swelled. She stated: "I don't think much of that is connected." She blamed higher interest rates on the strong economy: "The economy is continuing to show tremendous robustness, and that suggests that interest rates are likely to stay higher for longer," she said.

Nevertheless, the Treasury department helped to spark a significant bond rally on November 1 by announcing that the next round of auctions would have more bills and fewer notes and bonds.

In other words, Yellen in effect admitted that supply does matter. She drastically shifted the government's debt issuance plans to mostly short-term Treasury bills, to avoid outstripping the relatively weaker demand for long-end notes and bonds. Her "solution" to placate the Bond Vigilantes was to increase the supply of T-bills by $2.4 trillion from May 2023 through November 24 to a record $6.4 trillion.

Initially, President Trump's selection of hedge fund manager Scott Bessent as US Treasury Secretary on November 22, 2024 seemed to have pleased the Bond Vigilantes. Wall Street and the financial media widely viewed Bessent as a steady hand over what is an increasingly volatile bond market.

Before his nomination, in a November 10, 2024 *Wall Street Journal* *op-ed*, he criticized Yellen's debt management: "Treasury Secretary Janet Yellen has distorted Treasury markets by borrowing more than $1 trillion in more-expensive shorter-term debt compared with historical norms. Terming out that debt in favor of a more orthodox borrowing profile may increase longer-term interest rates and will need to be deftly handled. The only way to return to a prudent borrowing strategy without upsetting financial markets is restoring investors' faith in the economy and preserving the dollar's global role."

When Bessent took over as Treasury secretary in early 2025, he initially criticized Yellen's approach, arguing that it shortened debt maturities too much and clashed with the Federal Reserve's inflation goals. But by early February, he apparently had changed his mind: On February 5, 2025, the Treasury under Bessent announced that it would maintain Yellen's guidance, keeping longer-term debt issuance unchanged at $125 billion for quarterly refunding auctions spanning 3-, 10-, and 30-year maturities, with no increases expected for "at least the next several quarters."

"He and I are focused on the 10-year Treasury," Bessent said in a February 5 interview with Fox Business when asked about whether President Trump wants lower interest rates. "He is not calling for the Fed to lower rates."

Bessent explained his continuation of Yellen's plan in a February 20, 2025, Bloomberg Television interview, stating that any shift to Treasury's issuing new debt with longer maturities was "a long way off" due to market conditions, inflation, and the Fed's quantitative tightening. He suggested a gradual approach, as flooding the market with long-term bonds could spike yields and borrowing cost.

In the April 14, 2025 *Morning Briefing*, I wrote: "I will not be surprised if Bessent addresses the recent turmoil in the Treasury bond market by reducing the size of Treasury bond auctions, thus financing even more of the deficit with Treasury bills. The next quarterly refunding announcement is scheduled for April 30. That would certainly push bond yields lower. In effect, this would amount to a policy of Yield Curve Control by the Treasury (YCC-T) rather than the Fed (YCC-F)."

That didn't happen. Now that President Trump has endorsed the YCC concept, let's see how Bessent responds on July 30 when the next quarterly refunding is announced. Then let's see how the Bond Vigilantes respond:

US Debt VI: The All-Treasury-Bills Extreme Case. As a thought experiment, what if the Treasury issued only Treasury bills? The Fed would be forced to buy a significant amount (if not all) of them to keep the federal funds rate from rising above its targeted range. Bond yields might fall dramatically unless expected and actual inflationary pressures resulted, in which case the Fed would have to raise the federal funds rate range. That would immediately increase the cost of financing the Treasury's debt.

Over the past 12 months, the net interest outlays of the US federal government totaled a record $945 billion, implying that the effective interest rate on the government's debt was 3.31% over that period (*Fig. 9* and *Fig. 10*).

Trump's YCC-T plan might be a clever way to lower the net interest outlays of the federal government. Or it might result in another round of turmoil in the capital markets like what happened in early April. In any event, it isn't clear whether he has decided to proceed with this plan.

Movie. "The Four Seasons" (++) is a 2025 Netflix series and modern-day remake of the 1981 film of the same name written by, directed by, and starring Alan Alda (who also makes a brief appearance in the series). It's about three couples who have a tradition of taking quarterly vacations together. Things get complicated when one of the couples divorces. It's a bit like the TV series "Friends" but with a middle-aged cast of characters, with more water under the bridge. The solid ensemble of actors includes Tina Fey and Steve Carell. (See our movie reviews *archive*.)

Calendars

US: Mon: Fed Balance Sheet. **Tues:** NFIB Business Optimism Index 98.7; Consumer Credit Change $10.5 billion; Consumer Inflation Expectations. (Source: FX Street)

Global: Mon: Eurozone Retail Sales -0.8%; Germany Industrial Production -0.5%; UK Halifax House Price Index -0.1%y/y. **Tues:** China CPI 0.0%y/y; China PPI -3.2%y/y; RBA Interest Rate Decision 3.60%. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index rose 1.7% during the July 4 week and closed at a record high for a second straight week. That compares to a 0.2% gain for the AC World ex-US index, which has been hitting new record highs since May 14 for the first time since June 15, 2021. The US MSCI has outperformed the AC World ex-US for two straight weeks but in just eight of the past 23 weeks. EM Latin America was the best performing region last week, with a gain of 3.5%, ahead of EMEA (2.6%), EM (0.3), and the AC World ex-US. EM Asia was the worst performer, with a decline of 0.4%, followed by EMU (0.0), EAFE (0.0), and Europe (0.0). The Brazil MSCI index performed the best among country indexes last week, with a gain of 4.4%, ahead of South Africa (3.0), Mexico (2.1), the US (1.7), and Canada (1.6). The Sweden MSCI index was the worst performer w/w, albeit with a decline of 1.6%, followed by China (-1.2), Germany (-0.5), Hong Kong (-0.4), and Japan (-0.4). In terms of ytd performance rankings, the US MSCI index is up 6.9% ytd, but is among the worst country performers and trails the 16.4% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America now leads with a gain of 29.0%, followed by EMU (25.7%), Europe (21.1), EAFE (17.4), and the AC World ex-US. EM Asia is now the worst ytd performer, albeit with a gain of 13.3%, followed by EM (14.5) and EMEA (15.0). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 41.5%, followed by Korea (36.5), Germany (31.5), Mexico (31.0), and South Africa (29.8). The worst performing countries ytd: India (6.1), the US (6.9), Japan (9.2), Australia (10.6), Taiwan (12.3), and China (15.0).

US Stock Indexes (*link*): All 48 of the major US stock indexes that we follow rose for a second straight week during the week ended July 4. The S&P 400 MidCap Pure Value index was the best performer, with a gain of 5.6%, followed by S&P 600 SmallCap Pure Value (5.2%), Russell 2000 Value (4.6), S&P 600 SmallCap Equal Weighted (4.0), and S&P 600 SmallCap Value (4.0). The Dow Jones 15 Utilities index was the worst performer, albeit with a gain of 0.5%, followed by Nasdaq Industrials (0.6%), S&P 500 LargeCap Growth (1.4), and Nasdaq 100 (1.5). Forty-three of the 48 indexes are now higher so far in 2025, up from 24 several weeks earlier and down from 47 in mid-February. With a gain of 12.1%, the S&P 500 LargeCap Pure Growth index is in the top spot as the best performer so far in 2025, ahead of Russell MidCap Growth (9.9), S&P 100 Equal Weighted (9.4), S&P 500 LargeCap Growth (9.3), and Nasdaq 100 (8.8). The worst performing major US stock indexes ytd: S&P 600 SmallCap Value (-4.3), S&P 600 SmallCap Equal Weighted (-2.3), S&P 600 SmallCap (-2.0), S&P 600 SmallCap Pure Value (-0.8), and Russell 2000 Value (0.5).

S&P 500 Sectors Performance (*link*): Ten of the 11 S&P 500 sectors rose during the week ending July 4, and five were ahead of the S&P 500's 1.7% gain. That compares to nine S&P 500 sectors rising a week earlier, when three sectors were ahead of the S&P 500's 3.4% gain. The outperformers last week: Materials (3.7%), Information Technology (2.4), Financials (2.4), Energy (2.1), and Industrials (1.7). The underperformers last week: Communication Services (-0.2), Utilities (0.6), Consumer Discretionary (0.8), Health Care (1.2), Consumer Staples (1.4), and Real Estate (1.5). The S&P 500 is now up 6.8% ytd to a record high, with nine of the 11 sectors positive ytd and six ahead of the index. During the June 20 week, an astounding nine sectors were *ahead* of the index ytd. Industrials still wears the crown as the best ytd performer, with a gain of 13.3%, ahead of Communication Services (10.1), Financials (10.0), Information Technology (9.3), Materials (8.8), and Utilities (8.0). These five sectors are lagging the S&P 500 so far in 2025: Consumer Discretionary (-2.6), Health Care (-1.5), Energy (1.8), Real Estate (2.6), and Consumer Staples (6.1).

US Economic Indicators

Employment (*link*): Employment rose more than expected in June, and there was a slight upward revision to the prior two months' readings. *Payroll employment* climbed 147,000 in June, above the 110,000 expected gain, while revisions show both May (to 144,000 from 139,000) and April (158,000 from 147,000) payrolls were revised higher for a net gain of 16,000. *Government* added 73,000 to payrolls last month, led by an increase of 47,000 in *state government* payrolls—primarily education (+40,000)—while employment in *local government* (+33,000) payrolls continued to trend higher, also led by education (23,000). *Federal* government jobs fell by 7,000—sliding 69,000 from its recent peak in January. *Private payroll* employment climbed 74,000 in June, below consensus expectations of 105,000 and slowing from May's gain of 137,000. The *service-providing* segment of private private-sector employment added 68,000 to payrolls last month—below May's gain of 141,000—while the goods-producing sector added 6,000 jobs. *Within goods producing*, construction companies adding 15,000 jobs, while manufacturing saw an employment decline of 7,000—with both durable goods (-5,000) and nondurable goods (-2,000) payrolls in the red—while mining & logging employment shed 2,000 jobs. *Within service-providing industries*, once again *health care* led the pack, adding 39,000 jobs in June—similar to the average monthly gain of 43,000 over the prior 12 months—with hospitals (16,000) and nursing and residential care facilities (14,000) once again leading the increase in this sector. *Social assistance* employment remained on an uptrend, rising 19,400, thanks to continued growth in individual and family services.

Wages (*link*): Average hourly earnings (AHE) for *all workers on private payrolls* increased 0.2% in June, while the three-month rate increased 3.1% (saar), below the yearly rate of 3.7%. June's yearly rate is down from November's 4.2% and only a tick above last July's 3.6%—which was the lowest since May 2021. *Service-providing industries showing three-month rates above their yearly rates*: information services (9.6% & 5.8% y/y), other services (4.6 & 3.2), and wholesale trade (4.0 & 3.0). *Service-providing industries showing three-month rates below their yearly rates:* utilities (-0.7m/m & 2.3% y/y), leisure & hospitality (1.4 & 3.5), retail trade (1.6 & 3.7), transportation & warehousing (1.8 & 2.4), education & health services (2.5 & 3.0), financial services (3.5 & 4.2), and professional & business services (4.6 & 4.8). Within *goods-producing* industries, the annualized three-month rates were below their yearly rates for both *durable goods* (-1.2 & 3.5) and *nondurable goods* (2.8 & 3.6) manufacturing.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, was unchanged at its record high in June. *Average hourly earnings* rose 0.2% to yet another record high in June, while aggregate weekly hours fell 0.2%—with private payroll employment up 0.1% and the average workweek down 0.3%.

Unemployment (*link*): The *number of unemployed* fell 222,000 in June to 7.02 million, with the *unemployment rate* ticking down from 4.2% to 4.1%—remaining in a narrow range from 4.0% to 4.2% since last May. *Household employment* rose 93,000 last month, while the *labor force* fell 130,000. The *participation rate* edged down from 62.4% to 62.3%. *By race:* The unemployment rate for African Americans (to 6.8% from 6.0%) rose sharply in June, while rates for Hispanics (4.8 from 5.1), Whites (3.6 from 3.8), and Asians (3.5 from 3.6) moved lower. *By education:* The unemployment rate dropped in June for those with a high-school diploma (to 4.0% from 4.5%) and edged lower for those with some college or an associate's degree (3.2 from 3.3) and those with a bachelor's degree or higher (2.5 from 2.6), while the rate rose for those with less than a high-school diploma (to 5.8 from 5.5).

US Non-Manufacturing PMI (*link*): The US service sector expanded in June after one month of contraction in May, while price pressures accelerated. June's *ISM NM-PMI* (to 50.8 from 49.9) moved back above the break-even point of 50.0—its 11th reading above 50.0 in the past 12 months. The *business activity/production index* climbed 4.2ppts in June, from 50.0 to 54.2—and has not been in contraction territory since May 2020—while the *new orders* (51.3 from 46.4) measure returned to expansion in June. *Inventories* (52.7 from 49.7) moved from liquidation to accumulation last month. The *supplier deliveries'* (50.3 from 52.5) gauge was in expansion territory for the seventh straight month. A reading above 50.0 indicates slower deliveries—which is typical as the economy improves and customer demand increases. Meanwhile, *employment* (47.2 from 50.7) contracted for the third time in the past four months. On the *inflation* front, the price index (to 67.5 from 65.1) posted its highest level since November 2022—exceeding 60.0 for the seventh successive month.

Global Economic Indicators

Germany Factory Orders (*link*): Germany *factory orders* sank 1.4% in May, the first decline since January and considerably weaker than the consensus estimate of a 0.1% downtick—nearly offsetting April's upwardly revised 1.6% increase. *Domestic* orders plunged 7.8% in May, while foreign orders climbed 2.9%, as orders from *outside the Eurozone* spiked 9.8%, partially offsetting a 6.5% decline from *orders* from *within the Eurozone*. The report was a mixture of positives and negatives in May: orders for computer, electronic, and optical products plunged 17.7% following a big gain in April. Demand also fell for orders for electrical equipment (-6.2%), and basic metals (-5.1), while orders for fabricated metal products (18.2) and other transport equipment (6.8) posted solid gains. *By sector*, capital goods (-4.1%) and intermediate goods (-3.4) orders slumped in May, while consumer goods orders jumped 3.1% during the month. *Excluding large-scale orders*, billings dropped 3.1%.

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