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Morning Briefing

Foreigners LOVE American Securities

Check out the accompanying [chart collection](#).

Executive Summary: Like Blanche DuBois, the US Treasury has been dependent on the kindness of strangers, particularly foreign investors. Doomsters warn that foreign investors are losing their confidence in US Treasuries and in the US dollar. Yet, the Treasury's latest TICS data show that they remain strong buyers of US debt. In addition, they've bought a record amount of US equities over the past 12 months. Dr Ed reviews the latest data and discusses the implications. ... Also, Dr Ed reviews "The Children Act" (+).

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Foreign Buyers I: Loading Up on US Treasuries & Equities. The phrase "I have always depended on the kindness of strangers" is a famous line from Tennessee Williams' play, *A Streetcar Named Desire*. It's spoken by the character [Blanche DuBois](#) in the final scene as a doctor and a nurse are leading her away. The line is often interpreted in various ways, including as an expression of Blanche's naivety, her reliance on fantasy and illusion, and her desperate need for acceptance and validation.

Similarly, Uncle Sam has increasingly relied on the kindness of strangers, i.e., foreign investors, to purchase US Treasuries, helping to finance the rapidly mounting debt of the US federal government. In recent years, Doomsayers, such as Ray Dalio, have warned that we can no longer count on them to do so. A debt crisis is increasingly likely, they warn. That would cause bond yields to soar in the US. The dollar would also plummet in this scenario. The dollar bears have recently warned that global equity investors are rebalancing their portfolios out of US equities and into other major equity markets worldwide, particularly those in Europe. This has depressed the foreign exchange value of the dollar, especially relative to the euro.

The naysayers may be right eventually, but the May [Treasury International Capital System \(TICS\)](#) data released last Thursday by the US Treasury show that foreigners remain very kindly disposed to buying US securities. In fact, they bought these securities at a record pace over the 12 months through May! This helps to explain why the 10-year US Treasury bond yield has remained relatively subdued all year, around our target range of 4.25% to 4.75% ([Fig. 1](#)). That's consistent with our view that the bond yield has normalized over the past couple of years by trading in a range like the one in the years before the Great Financial Crisis.

The record inflow into US equities also partially explains the unprecedented 26.4% rebound in the S&P 500 since its April 8 correction low ([Fig. 2](#)). Harder to explain is the weakness in the dollar index (DXY) so far this year in the face of the massive net foreign inflows into US securities ([Fig. 3](#)). The latest Treasury data confirm our stance that this year's decline in the dollar is a correction (that might be over), and not the beginning of a long-term decline in the foreign exchange value of the greenback.

So, we take comfort from the data that confirm that it is the bears on the outlook for a massive selloff in US bonds, US equities, and the US dollar who might be delusional, not us. Our faith in the kindness of strangers has been validated by the latest Treasury data.

Now, let's take a closer look at that data, which confirms that "foreigners like us right now, they like us" to paraphrase Sally Field's Oscar acceptance [speech](#):

(1) *Total inflows*. Total US net capital inflows, including private and official foreign accounts, rose to a record \$1.76 trillion over the 12 months through May ([Fig. 4](#)). That's quite impressive indeed, given that Trump's Tariff Turmoil (TTT) was widely and mistakenly blamed for turning foreigners off to investing in the US in recent months.

(2) *Total official versus private inflows*. US net capital inflows attributable to official foreign accounts were only \$33.5 billion over the past 12 months through May ([Fig. 5](#)). But those attributable to foreign private investors soared to a record \$1.73 trillion.

(3) *Total inflows into US bonds and stocks*. Net foreign inflows into US bonds (including Treasury, Agency, and corporate bonds) remained elevated at \$941 billion over the past 12 months through May ([Fig. 6](#)). Even more impressive is that inflows into US equities surged to a record \$597 billion over the same period! During May alone, the net inflow into US securities was \$318.5 billion, with \$146 billion going into US Treasury notes and bonds and \$114 billion going into US equities. After Trump moderated his trade war stance during April, foreign investors came back to the US in size during May.

(4) *Inflows into bonds*. Over the past 12 months through May, net private foreign purchases of Treasury notes and bonds were \$541 billion, Agency bonds were \$133 billion, and domestic corporate bonds were \$267 billion ([Fig. 7](#)). Official foreign accounts showed a net outflow of \$73 billion over this period ([Fig. 8](#) and [Fig. 9](#)). These accounts were also net sellers of Agency bonds (\$55 billion) and equities (\$35 billion).

(5) *Inflows into Treasury bills*. Net inflows into Treasury bills over the past 12 months totaled \$336 billion with official accounts purchasing \$143 billion and private ones \$193 billion ([Fig. 10](#)). The total is the most since mid-2020, just after the pandemic lockdowns were lifted suggesting that TTT caused as much angst initially around the world as did the Great Virus Crisis!

Foreign Buyers II: Not All Bond Vigilantes Speak English. The Treasury data show that the biggest group of potential bond vigilantes is foreign private investors and foreign official accounts. That's because they own the largest share of US Treasuries. Consider the following:

(1) *Foreign holdings of Treasuries*. Collectively, foreigners (a.k.a., kind strangers) held a record \$9.0 trillion of US Treasuries during May, up \$869 billion from a year ago ([Fig. 11](#)). Foreign official accounts held \$3.9 trillion, while private foreign accounts held \$5.1 trillion.

(2) *Percent of US debt held by foreigners*. So, foreigners held 32% of the \$28.6 trillion of total outstanding US marketable Treasury debt as of May ([Fig. 12](#)). That's down from a record 56% during May 2008. Over this same period, the percentage held by official accounts (including central banks and sovereign wealth funds) fell from a record 41% to 18%, while the percentage held by private foreign accounts fell from 18% to 14%. The percentage of US Treasury debt held by private foreigners exceeded that of foreign official accounts during July 2023, when they were both at 15%.

(3) *Treasury maturities held by official foreigners*. Interestingly, foreign official accounts hold mostly Treasury notes and bonds. During May, they held \$3.5 trillion in these maturities and only \$0.4 trillion in bills ([Fig. 13](#)). (Keep in mind that notes include all Treasuries with original maturities of 2 to 10 years and bonds are those issued with original maturities exceeding 10 years, according to the Treasury.)

The percentage of notes and bonds held by foreign official accounts has declined from 54% during August 2008 to 18% currently ([Fig. 14](#)). Official accounts such as central banks are relatively minor characters in the bond vigilantes story.

Foreign Buyers III: Fed's Quarterly Data. The Fed uses the TICS data in its quarterly compilation of capital market transactions and balance sheets:

(1) *Major holders of Treasuries during Q1-2025.* At the end of Q1-2025, the “rest of the world” (ROW) held \$9.0 trillion in US marketable Treasuries accounting for 32% of US marketable debt ([Fig. 15](#) and [Fig. 16](#)). Institutional investors accounted for 14%; the Fed accounted for 14%; money market mutual funds held 10%; households owned 10%; and, US chartered depository institutions had a 5% share of the debt. All others accounted for the remaining 15%.

(2) *Major holders of Treasuries since 1952.* During the 1950s and 1960s, banks held the largest share of Treasury debt. But their share has fallen. It fell from over 44% during 1952 to 6% currently ([Fig. 17](#)).

Picking up share along the way has been the ROW. It was well below 10% during the 1950s and 1960s. It shot up to 28% at the end of 1978 after President Richard Nixon closed the gold window in August 1971. In effect, that ended the gold standard and started the dollar standard.

The ROW share of US Treasury debt peaked at 57% during Q2-008. It has dropped to 34% by at the end of Q1-2025.

Movie. “The Children Act” (+). Emma Thompson stars as a brilliant and widely admired judge presiding in a London court. She specializes in cases involving children. She has committed all her energies to her job to the detriment of her marriage. Her latest case involves a teenager who is dying from leukemia. The hospital he is in wants to provide him with blood transfusions to save his life. His Mormon parents prohibit his doctors from doing so. The court case soon affects the judge’s personal life. (See our movie reviews [archive](#).)

Calendars

US: Mon: Leading Indicators -0.1%. **Tues:** Richmond Fed Manufacturing Index -4; Powell; Bowman. (Source: FX Street)

Global: Mon: Canada PPI 0.3%; BoC Business Outlook Survey; RBA Meeting Minute. **Tues:** ECB Bank Lending Survey; Lagarde. (Source: FX Street)

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index rose 0.7% during the July 18 week and closed the week at a record high. That compares to a 0.4% gain for the AC World ex-US index, which is 0.1% below its July 3 record high. The AC World ex-US had been hitting new record highs since May 14 for the first time since June 15, 2021. Counting the latest week, the US MSCI has outperformed the AC World ex-US in just nine of the past 25 weeks. EM Asia was the best performing region last week, with a gain of 1.9%, ahead of EM (1.6%), EMEA (1.4), and the AC World ex-US. EM Latin America (-1.0), was the worst regional performer, followed by EMU (-0.6), Europe (-0.5), and EAFE (-0.3). The China MSCI index performed the best among country indexes last week, with a gain of 3.7%, ahead of South Africa (3.4), Taiwan (2.9), Australia (1.1), and Canada (1.1). The Sweden MSCI index was the worst performer w/w, with a decline of 2.1%, followed by Brazil (-1.3), Mexico (-0.8), India (-0.7), and Spain (-0.6). In terms of ytd performance rankings, the US MSCI index is up 7.2% ytd, but ranks as the third worst country performer and trails the 16.5% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EMU leads with a gain of 25.8%, followed by EM Latin America (21.4), Europe (20.9), EAFE (16.7), and the AC World ex-US. EM Asia is the worst ytd performer, albeit with a gain of 15.7%, followed by EM (16.2) and EMEA (16.3). Looking at the major selected country markets that we follow, Spain is the best ytd performer, with a gain of 40.0%, followed by Korea (39.6), Germany (32.5), South Africa (30.9), and Mexico (26.4). The worst performing countries ytd: India (3.4), Japan (6.2), the US (6.5), Australia (7.2), Australia (12.0), and Canada (15.5).

US Stock Indexes ([link](#)): Twenty-four of the 48 major US stock indexes that we follow rose during the week ended July 18, up from just five indexes rising in the prior week. The Russell MidCap Growth index was the best performer for the week, rising 2.2%, ahead of Russell 1000 Growth (1.5%), Russell 3000 Growth (1.5), Nasdaq Composite (1.5), and S&P 500 LargeCap (1.5). The S&P 400 MidCap Pure Value and S&P 600 SmallCap indexes were the worst performers, with declines of 2.9% each, followed by S&P 500 Transportation (-2.4), Dow Jones 20 Transports (-2.1), and S&P 600 SmallCap Equal Weighted (-1.5). Forty 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 13.2%, the S&P 500 LargeCap Pure Growth index is in the top spot as the best performer so far in 2025, ahead of S&P 500 LargeCap Growth (10.7), Russell MidCap Growth (10.3), Nasdaq 100 (9.8), and Dow Jones 15 Utilities (9.3). The worst performing major US stock indexes ytd: S&P 600 SmallCap Value (-5.7), S&P 600 SmallCap Equal Weighted (-4.2), S&P 600 SmallCap Pure Value (-3.5), S&P 600 SmallCap (-3.1), and Russell 2000 Value (-0.6).

S&P 500 Sectors Performance ([link](#)): Seven of the 11 S&P 500 sectors rose during the week ending July 18, and five were ahead of the S&P 500's 0.6% gain. That compares to five S&P 500 sectors rising a week earlier, when seven were ahead of the S&P 500's 1.6% gain. The outperformers last week: Information Technology (0.2), Utilities (0.7), Industrials (0.8), Financials (0.7), and Real Estate (0.6). The underperformers last week: Energy (-3.9), Health Care (-2.5), Materials (-1.3), Consumer Staples (0.0), Communication Services (0.1), and Consumer Discretionary (0.5). The S&P 500 is now up 7.1% ytd, with nine of the 11 sectors positive ytd and five ahead of the index. During the June 20 week, Consumer Discretionary and Health Care were trailing so far behind ytd that they were the only sectors *trailing* the index. Industrials still wears the crown as the best ytd performer, with a gain of 14.9%, ahead of Information Technology (11.7), Utilities (10.5), Communication Services (8.9), and Financials (8.7). These six sectors are lagging the S&P 500 so far in 2025: Health Care (-4.3), Consumer Discretionary (-1.9), Energy (0.3), Real Estate (2.6), Consumer Staples (4.2), and Materials (7.1).

US Economic Indicators

Retail Sales ([link](#)): Retail sales in June were stronger than expected. Headline retail sales rose 0.6%, triple the consensus estimate of 0.2%, rebounding from May's 0.9% drop. *Retail sales ex autos* and retail sales for the *control group*—which excludes autos, gasoline, building materials, and food services, used in calculating GDP—were also a surprise on the upside, with both measures rising 0.5%, above the consensus estimate of 0.3%. *Of the 13 nominal retail sales categories*, 10 increased in June, while only two declined, while sales at gasoline service station sales were unchanged. *June sales performance versus that of a year ago*: miscellaneous store retailers (1.8% m/m & 8.5% y/y), motor vehicles & parts (1.2 & 6.5), clothing & accessories stores (0.9 & 3.9), building materials & garden equipment (0.9 & -1.1), food services & drinking places (0.6 & 6.6), health & personal care stores (0.5 & 8.3), general merchandise stores (0.5 & 3.2), food & beverage stores (0.5 & 2.5), non-store retailers (0.4 & 4.5), sporting goods & hobby stores (0.2 & 1.6), gasoline stations (0.0 & -4.4), furniture & home furnishings (-0.1 & 4.5), and electronics & appliance stores (-0.1 & -0.2).

Consumer Sentiment Index ([link](#)): Consumer sentiment improved in mid-July, climbing to a five-month high, though remains well below its historical average. *Consumer sentiment* improved for the second month in July to 61.8 from 50.8 in both April and May. The *current conditions* component also rose for the second month to 66.8, after falling from 75.1 in January to 58.9 in May, while the *expectations* component rose for the third month,

to 58.6, after sliding from 76.9 in November to 47.3 by April. *Turning to inflation*, year-ahead inflation eased for the second month, from 6.6% in May to 4.4% this month, while long-run inflation softened for the third month, easing from 4.0% to 3.6%. Both readings are the lowest since February 2025, through remain above December, “indicating that consumers still perceive substantial risk that inflation will increase in the future,” according to the report.

NAHB Housing Market Index ([link](#)): “The passage of the One Big Beautiful Bill Act provided a number of important wins for households, home builders and small businesses. While this new law should provide economic momentum after a disappointing spring, the housing sector has weakened in 2025 due to poor affordability conditions, particularly from elevated interest rates,” notes NAHB Chairman Buddy Hughes. July’s *housing market index* (HMI) edged up to 33 in July from 32 in June—which was the lowest reading since December 2022. In July, two of the three components rose, sales expectations (+3 points to 43) and current sales conditions (+1 to 36), while traffic of prospective buyers fell a point to 20. *Turning to prices*, 38% of homebuilders reported cutting prices in July—the highest percentage since NAHB began tracking the metric on a monthly basis in 2022, up from 37% in June, 34% in May, and 29% in April. The average price cut held steady at 5%—the same as its been every month since last November. The use of sales incentives was 62% in July, the same as June.

Housing Starts & Building Permits ([link](#)): Housing starts rebound in June, though there were some signs of weakness. *Total housing starts* increased 4.6% in June to 1.321mu (saar), beating expectations of a 3.5% increase, after plunging 9.7% in May. June’s gain was led by a 30.6% surge in multi-family starts of five units or more to 414,000 units (saar), while single-family starts sank 4.6% to 883,000 units. *Versus a year ago*, total starts slipped 0.5%, with single-family starts down 10.0%, while multi-unit sales were 30.6% above a year ago. *Regionally*, housing starts were carried by the Northeast (73.3% m/m & 52.9% y/y), while there was widespread weakness in the other regions: Midwest (-5.3 & 1.7), South (-0.7 & -9.0%) and out West (-1.4 & -1.7). Meanwhile, *building permits*, an indicator of future construction, edged up 0.2% to 1.397mu (saar), led by an 8.1% increase in units with five units or more to 478,000 units, while single-family permits slumped 3.7% to 866,000 units.

Global Economic Indicators

Eurozone CPI ([link](#)): The *Eurozone’s CPI* edged up to 2.0% in June from 1.9% in May; it was at 2.5% at the start of this year. The rate was at 1.7% last September—which was the lowest yearly rate since April 2021. Meanwhile, the core rate eased from 2.7% in April to

2.3% in May, and remained there in June—the lowest rate since January 2022. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. *Looking at the components*, the *services* rate ticked up to 3.3% in June, after slowing from 4.0% in April to 3.2% y/y in May, while the rate for energy prices was at -2.6% y/y in June, narrowing from -3.6% in both April and May; it had climbed from a recent low of -6.1% last September to 1.9% by January. Meanwhile, the rate for *food, alcohol & tobacco* continues to hover around 3.0%, ticking down from 3.2% to 3.1% in June. The rate for *non-energy industrial goods* edged down from 0.6% to 0.5%, fluctuating in a narrow band between 0.5% and 0.6% since last October. June's yearly inflation rate moved higher in the three of the four *largest Eurozone countries*: Spain (2.3 from 2.0), Italy (1.8 from 1.7), and France (to 0.9% from 0.6% in May), while Germany's ticked down (2.0 from 2.1), easing from 2.8% at the start of this year.

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