Strategy Comment- Observations on the markets.

Exorbitant privilege. 1946-2025.

- Yesterday's price action for fixed income markets, specifically Treasuries has no historical precedent. It is not so much the range- wide and choppy, but the nature of the violent unwind and fall in liquidity, or actually the absence of the liquidity that is concerning. As we noted in the Antipodean Wrap yesterday, and with no embellishment, the age of US exceptionalism (at least financially) has come to an end.
- To see the enormous shift in USD swap spreads, the largest move seen since SOFR was introduced, in this (Asian) time zone, the sharp 'flash-crash' move higher in US Treasury yields, and the USD sold heavily, was to witness a stripping away of the shield of liquidity and safety. No other market has had this reserve status in the modern era, and those who had it previously, saw their empires crumble.
- Dramatic? No, it shouldn't be seen that way. The US has enjoyed the prime position in global finance since the end of WW2, cemented with Bretton Woods a generation ago. Global trade, recycling of money to finance America, structurally lower yields and low FX risk have been benefits.
- By losing or diminishing credibility as a financial safe haven, the willingness of creditors to LEND money to the US is reduced. Never forget, a buyer of a bond is lending to that entity. In this case the US Government. A genuine question a lender always asks, and should ask, is 'Will I get my money back?'.
- The world, political and financial is looking on with horror, not bemusement, at an administration that prioritises the signing of an executive order for more water-power in shower heads, on the same day that the bond market breaks and investors question the long-term credibility of the administration having flip flopped on the largest of their policies, tariffs.
- The coming weeks are a big test for the bond market. Large net supply in Treasuries comes to market, investors are unsure of the long-term funding plans now that the 'big, beautiful revenues' aren't flowing as planned.
- The jump in yields in the order of 20-25bp in a 20 minute period isn't the first time we have seen such an event, but, combined with the moves in swap spreads yesterday, crunching tighter, such that a UST 10-year yielded 60bp over the same tenor swap rate is simply staggering.
- To be sure, there would have been the impact of the VaR (Value at Risk) event that saw bond positions sliced, and the 'basis trade' unwound. That played its part. But more broadly, even with central clearing allowing for some narrowing of swap/bond spreads in recent years (it is not a recent change in market structure) the ultimate risk-free curve, of USTs, the 'golden collateral', the actual instrument any investor from Tennessee to Tokyo can buy, is being challenged.
- That money did not scramble to secure USD funding (via the basis markets), to buy Treasuries and the USD for safety, is startling and a sharp warning.
- Hemingway's quote about going into bankruptcy and how it happens (not that this is a possibility as a sovereign to be clear and we would be very cautious to suggest anything different) was "Two ways. Gradually, then suddenly." Think of that in terms of the loss of hegemony, financial authority, and liquidity.
- Giving that hegemony, that authority, that liquidity and reserve status up, perhaps not willingly, but flippantly and without due consideration is not something you just 'get back'.
- It will take a long time to de-dollarise reserves, and a hat tip to the Deutsche Bank analyst who discussed this theme some weeks ago, but the path, which had started slowly at first, is moving to 'all at once'. My colleague Richard Franulovich recently discussed the acceleration of de-dollarisation under the Trump administration in a note entitled AUD: Shifting long term flow risks (11 Mar 25)
- Trust is earned hard and lost easily. The expression used for the US government debt is 'full faith and credit'. Dollar bills carry the term 'E pluribus, unum' '*Out of many, one'*.
- Those dollar bills also carry the term 'Novo ordo seclorum' which means '*a new order for the ages'.* As we watch the institutional framework and hegemony of the last eight decades change so rapidly, and, from the observation of many people, dismantled, those words printed on millions of pieces of paper, IOUs, have a somewhat hollow feeling.
- A favourite ever quote on markets comes from the former CEO of Citicorp, Walter Wriston, who observed that "capital goes where it is welcome and stays where it is well treated". Words to remember.

Financial Markets Strategy

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