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# From Sell America to Buy America Back? What's next

Despite all the "Sell America" talk, the dominating impulse in more recent weeks has been "Buy America Back". Equity markets are up, credit spreads down and Treasury yields have calmed. We'll take it, even on a weaker dollar. But there are issues ahead. Specifically a double whammy of 4% inflation and more intense issuance pressure. Careful out there...

## We've morphed to a Buy America Back phase

Some months ago, and well before 'Liberation day', we coined the phrase "Sell America Inc." Post Liberation Day, it became a global thing, at least for a week or so. But since then, we've had a period we can only describe as "Buy America Back". The calming in the generic all-in high yield to back below 7% is a decent metaphor for this. On the day of the tariff pause that yield had topped 8.5%.

## The morph from "Sell America" to "Buy America Back"

The 5yr All-In High Yield (USD)


Source: Source: Macrobond, ING estimates

Similar can be seen on stock markets. The S&P 500 is not just an impressive 20% above the lows hit in the days after Liberation Day, but, frankly, an even more striking 7% above its pre-Liberation Day level.

We're not blinded to the fact that the dollar remains an underperforming element to the whole Buy America Back narrative. In addition, US equity markets are still in an underperforming state for 2025, and especially when translated back to most other currencies. But still, it's been quite the turnaround.

On the equity market performance seen, we could rationalise the prior collapse post Liberation Day based off a downsizing of the expected stream of future earnings, on a theory that tariffs acted as an inefficient tax wedge. Seems straightforward, and in fact had suggested that valuations could have difficulty getting back to where they started. The question now is how to properly interpret, from a valuation perspective, the subsequent recovery, where equity market indices are comfortably *above* their pre-Liberation Day levels. Surely, we can’t use the same logic – that future earnings are in fact better now? We’re still in a tariff world after all, and our basic assumption is that’s not for changing.

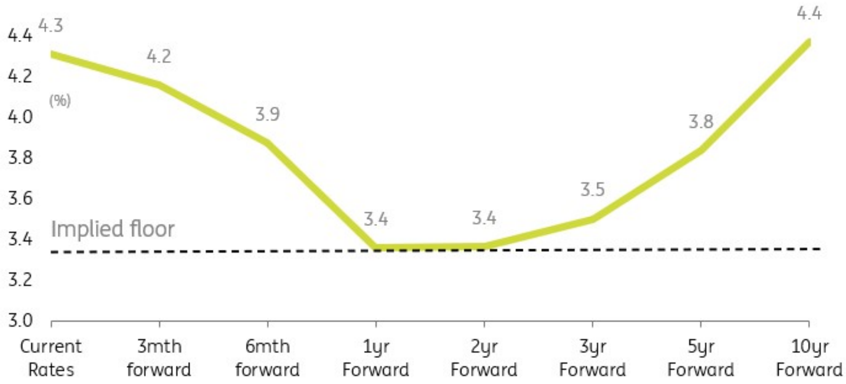
So what's going on?

## US Treasuries have calmed too as a consequence

Perhaps we can glean some information from the bond market, often seen as the deep thinker of financial markets. There too there has been some material calming. The 10yr Treasury yield topped out at 4.6% on the day the tariffs were paused. And while it has wobbled, it’s ultimately found its way back down to the 4.4% area. Recent subdued inflation data and rises in jobless claims have helped, in turn reflected in decent demand at the most recent 10yr and 30yr auctions. On top of that, the market discount for the Fed funds rate is both supportive (100bp of cuts discounted), and comforting. Comforting as the forwards discount a bottoming at or around neutral, and then a tendency for rates to edge back up again. We’d take that discount all day long, as if proven correct, there is absolutely nothing to worry about.

## This looks like a soft landing plus a subsequent take-off

The Fed funds rate market discount plus the forward profile




Source: Source: Macrobond, ING estimates

Put simply, the markets are absolutely not discounting a recession of any consequence. Equity markets are well up, credit spreads are well down and the rates profile shows no signs of macro malaise. Sounds too good to be true? Feels that way.

## But what about the bond negatives that lock in the undergrowth

However, we're faced with something of a double whammy of bond negativities to deal with. The first is the optics of 4% inflation, which we predict by the third quarter (tariff induced). We think it subsequently falls, but it does need to actually fall, before we can get comfortable. The second bond negative is the fiscal dynamics and bond supply. If the tax-cutting bill gets through Congress in anything like it's current guise, we are left with no plan to cut the fiscal deficit into the medium term. That leaves us with a 6% to 7% fiscal deficit as a % GDP and a debt/GDP ratio on a never-ending path higher. It's always tough to identify when this actually becomes an issue for Treasuries, but on any given day the market can decide it's an issue. One potential catalyst is actual passage of the tax-cutting deal.

Another important issue is worth adding here – the link of the debt ceiling to passage of the tax-cutting package. Once the package is passed, the debt ceiling is suspended (or raised). While that seems to be optically positive, and it is, as idle talk of debt default is shelved. But it comes with a sting in the tail. Remember, the debt ceiling was put back in place on 2 January 2025. Since then, the US Treasury hasn't been able to borrow more money. Instead, it's been using special accounting tools and spending tax money it already collected to stay under the limit. This spending has kept more money in the banking system, which has helped maintain ample available cash, in bank reserves.

Once the debt ceiling is lifted, everything flips. The US Treasury will start borrowing heavily again, which will reduce the amount of cash (reserves) in the banking system. That will put pressure on the Treasury market and make it feel more strained. As bank reserves shrink, short-term borrowing costs will rise. Combined with 4% inflation and all the new debt being issued, this creates a tough environment for Treasuries.

## It's a fine line to tread, between the pull of a weaker economy versus the push of inflation and issuance

There are some offsetting factors. The heavy lifting since end-2023 has been done through bills issuance, which has risen from 15% of marketable debt to comfortably over 20%. Treasury Secretary Bessent is likely to continue to shield longer-dated coupons from isuance pressure as much as possible, concentrating most pressure on bills issuance. Still, investors in longer-term Treasuries know that eventually the government will need to issue more debt with longer maturities. It's hard to say exactly when or how this will affect yields, but it's clearly a negative factor for bonds.

While a weakening economy might soften the blow, it's more likely we'll see a steeper yield curve rather than lower 10-year yields. There's a delicate balance here—if the Fed cuts rates by the fourth quarter, that could help bring yields down across the curve. But before that happens, we think there's still some downside risk for Treasuries that needs to play out.

> Is this a case of "Sell America Inc"? We don't think so, at least not in its more sinister sense. It's more about investors shifting to better value elsewhere for traditional relative value reasons. Still, it could cause problems—and if there were to be selling of US assets broadly, it would make things worse. If the 10yr Treasury yield rose to around 4.75% in the third quarter (which we think is quite possible, even a spike to 5% is entirely possible), it could shake up credit and stock markets. That impact might be softened if the recent "Buy America Back" trend holds up. But even so, it would still be a real risk to the current calm environment of falling yields and tight credit spreads.
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> The current sinister spat between Israel and Iran with implications for higher energy prices is another route to upward pressure on prices that can trouble Treasuries in the coming months. Like the above, this can cut both ways, and can manifest into a 'quality' flight. But so far the market has not been minded to morph this into a flight to bonds. Rather its been marked as a higher inflation risk and thus negative for Treasuries.


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