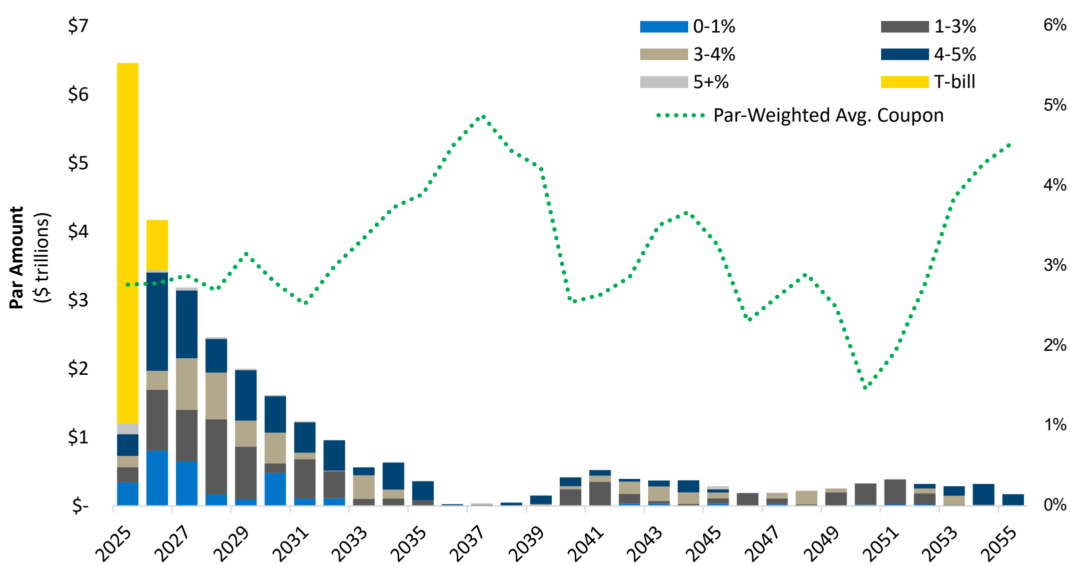
Treasury Briefing:
Trump, the Fed and Maturity Walls

Bill Campbell, Portfolio Manager, Global Sovereign Debt | September 2025

Sometimes conventional wisdom is right. Commentators are virtually unanimous, and correctly so, that President Donald Trump wants the Federal Reserve to lower the federal funds rate in order to reduce borrowing costs for businesses, consumers and homebuyers, thus stimulating the economy. But that logic, hardly unique among U.S. presidents, misses the new part of the story. The White House also needs interest-rate cuts – and soon – to deescalate the government's cost of capital. This factor, possibly underappreciated by the market, helps explain the president's urgency for a Federal Reserve in rate-cutting gear in the near term.

To illustrate, let's pencil a back-of-the-envelope estimate on the U.S. Treasury's outstanding debt maturing next year. The following chart depicts in bars the level of Treasury debt outstanding as of July 31 (left vertical axis), segmented by maturity years, against the weighted average coupon of that debt for each maturity year (right vertical axis). The bars are bucketed into Treasury bills and coupon ranges for Treasury notes and bonds (e.g., 0-1% represents the amount of debt maturing in a given year with a coupon between 0% and 1%).

U.S. Treasury Securities by Coupon Cohort and Maturity Year | As of July 31, 2025



Sources: DoubleLine, U.S. Treasury

Publicly held Treasury debt totaled $28.95 trillion as of July 31. Of that sum, $4.175 trillion will mature in 2026 and must be rolled over at the rates in the spot market, which at present are considerably higher than the average coupon on the maturing debt. Treasury bills (government obligations with maturities of less than one year) made up $736 billion of the Treasury's 2026 maturing debt (as of July 31, 2025). T-bills are zero-coupon instruments sold at discounts in the primary market. I'll return to them later. First, let's focus first on the $3.439 trillion in coupon debt in the form of Treasury notes and bonds maturing next year.[1] The weighted average coupon of these obligations – the weighted average interest rate payable by the government to bondholders – is 2.78%.

By comparison, yields on Treasury securities ranged from 3.6% on the two-year up to 4.9% on the 30-year as of this writing. For the sake of this analysis, I'll focus on the two-year, just to take a more conservative estimate using the lower available yields in the spot market. If the Treasury were able to refinance the maturing 2026 coupon debt at this rate, that would represent an increase of 82 basis points, or 0.82%, in the government's borrowing rate. Such an increase in the government's cost of capital would annualize into an increase of about $28 billion in debt service. Of course, the actual interest rate at which the coupon debt will be issued in 2026 will depend on many factors beyond just the federal funds rate. However, under prudent assumptions about the future, even at the short end of the Treasury yield curve, the imminent refinancing of the current weighted average coupon of 2.78% presents a challenge to the administration.

In addition to this cost, the T-bill obligations I mentioned above cannot be ignored. T-bills represent about 21% of the total outstanding Treasury debt. With their short maturities, their interest rates are tied more closely than those of notes and bonds to the fed funds rate prevailing at the time of offer in the primary market. In the latest Treasury Refunding Report, the Treasury reported plans to increase the issuance of T-bills in order to hold the issuance of longer-dated Treasuries constant. This is likely to avoid the higher interest rates at the longer end of the yield curve. Therefore, a significant and growing share of the government's interest expense is and will be more closely tied to fed funds.

The maturity walls in 2027-2028, the remaining years of the Trump administration, likewise will roll into higher coupons absent a decline in interest rates. And this debt stock omits net new debt being issued to cover a federal deficit currently running at $1.9 trillion, or 6.5% of U.S. gross domestic product.

Given this outlook, the president understandably is pressuring the Fed to lower interest rates. The Treasury is striving to manage future coupon issuance at current levels, while increasing T-bill issuance. That can reduce the upward pressure on interest expense in the next year or two. Based on these factors, I expect that the face value of T-bills in 2026 will increase to well over the current $6 trillion outstanding at the end of July.

This juggling act, however, leaves unresolved the issue that the nominal debt stock is growing with large deficits.[2,3] Treasury Secretary Scott Bessent has stated the strategy is to increase growth to grow out of the debt-and-deficit problem. This remains a risky strategy compared to the proven approach of cutting expenditures to address debt sustainability. Meanwhile, maturity walls in 2026 and beyond loom as an absolute certainty. ■

1 Treasury notes are obligations with maturities of two to 10 years; bonds have maturities of 20 to 30 years.

2 Active management in fixed income gives active managers many levers to pull when navigating the risk of sovereign as well as corporate and securitized debt. These include portfolio-positioning on the interest rate curve and diversifying into a mix of assets from government securities, corporate credit, structured products and international bonds. Within such broad categories, the bottom-up active manager can hunt for idiosyncratic dislocations pricing securities at attractive reward/risk ratios.

3 As DoubleLine CEO Jeffrey Gundlach, my DoubleLine colleagues and I have warned for years, the present deficit trajectory is unsustainable. For more recent examples, see DoubleLine Fixed Income Allocation Strategist Ryan Kimmel, "U.S. Debt Spiral Watch: A Scenario Survey as Washington Drifts Toward a Reckoning," July 2024, and DoubleLine CEO Jeffrey Gundlach, "America's debt cannot keep stacking up," The Economist, Dec. 13, 2024

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Basis Points (bps) – Basis points (or basis point (bp)) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as: 1% change = 100 basis points; 0.01% = 1 basis point.

Federal Funds Rate – Target interest rate, set by the Federal Reserve at its Federal Open Market Committee (FOMC) meetings, at which commercial banks borrow and lend their excess reserves to each other overnight. The Fed sets a target federal funds rate eight times a year, based on prevailing economic conditions.

Maturity – Date on which the life of a transaction or financial instrument ends, after which it must be renewed or it will cease to exist.

Par – Short for "par value," par can refer to bonds, preferred stock, common stock or currencies, with different meanings depending on the context. Par most commonly refers to bonds, in which case, it means the face value, or value at which the bond will be redeemed at maturity.

About DoubleLine

DoubleLine Capital LP is an investment adviser registered under the Investment Advisers Act of 1940. DoubleLine's offices can be reached by telephone at (813) 791-7333 or by email at info@doubleline.com. Media can reach DoubleLine by email at media@doubleline.com.