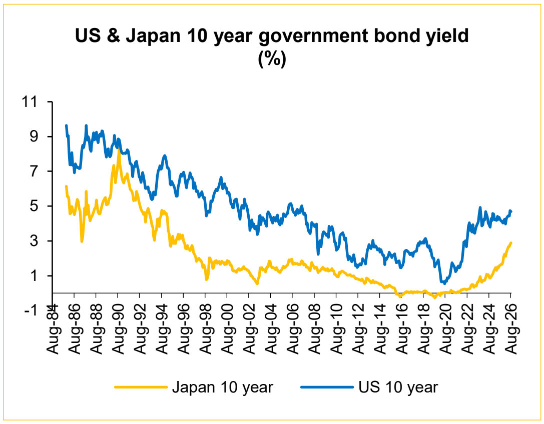
Fighting the Tide: Why US Intervention Can't Lower the Cost of Money

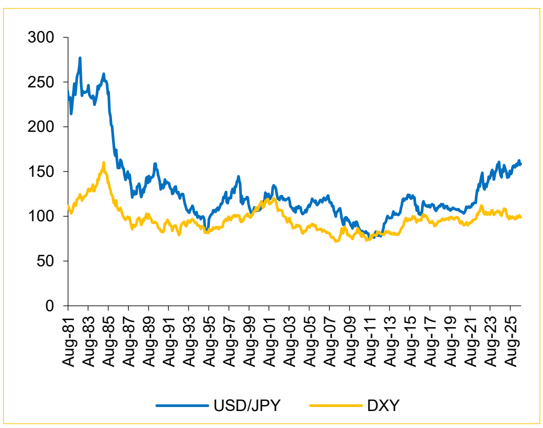
September 02, 2026

Japan 10-year bond yields increased to the levels seen in 1996, US yields also inched up to pre-GFC levels



Source: CMIE, Choice Institutional Equities

Gap between USD/JPY and the Dollar index widens as the USD/JPY rises significantly while the Dollar index moderates



Source: CMIE, Choice Institutional Equities

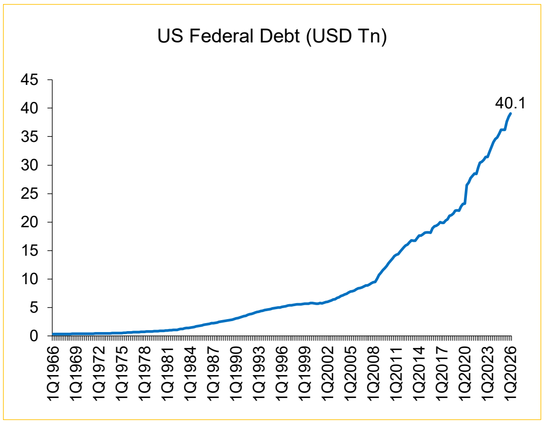
Geopolitics is a persistent overhang, not a fading one. The bigger fragility is the AI boom's circular financing; like the late-1990s, one fissure can unwind it, and this time it most likely originates in the banking sector as tighter funding severs the loop. The tell to watch is the 30-year yield through the buybacks; if it keeps rising, the props are being faded.

Key Takeaways -

- **The US problem is solvency, not liquidity - Federal debt is past USD 40 Tn (debt/GDP ~123%, heading toward the 133% record), the deficit has widened to USD 1.8 Tn (Jul'26 FYTD from USD 1.6 Tn), and interest now eats ~35% of tax revenue - one dollar in three. The term premium is rising because the market doubts the fiscal path; liquidity tools can't fix a solvency problem, which is why every intervention fades within hours.**
- **It's a global problem, so yields have nowhere to fall - IIF data show world debt up USD 29 Tn in 2025 to a record USD 348 Tn, with Japan >250% of GDP, the UK 105%, the Eurozone ~90%, China 80% (more with hidden liabilities) and India 85.5%. Every large sovereign is issuing at once, so no low-yield haven is left to absorb supply. The US 10Y term premium has been positive since Sep'24 and at ~0.8% sits near Taper-Tantrum levels.**
- **The yen intervention was a US Treasury-market defence, and it failed - Japan is the largest foreign holder of USTs (USD 1.1 Tn); the August operation (first since 1998) was meant to prevent forced Japanese selling and a carry unwind. But USD/JPY round-tripped straight back to 159, and the risk is already live: Japan's short-term Treasury holdings are down 54% since Apr'26, driving the surge in short-dated US yields.**
- **2024–26 is a regime change in the yen–rate nexus - For the first time in two decades, the US–Japan differential is compressing from both ends (Japan normalising up, the US capped), while the yen stays weak and positioning stays crowded. Japan's curve is bear-steepening, and its short-term UST book is already shrinking: the classic set-up for a disorderly snap-back.**
- **Expect more intervention, not less - a ratchet, not a fix. The trigger is now endogenous: US fiscal stress itself can light the carry fuse, giving Washington a self-interested reason to keep capping yen appreciation. Escalation likely runs through the Fed's FIMA repo backstop first. But each successful defence enlarges the position that must eventually clear.**
- **Bessent's doubled buybacks (USD 4 Bn+/operation) bought one day - The 30-year dipped, then reversed above 5.27% within 48 hours, higher than before he moved. At USD 4 Bn against USD 32 Tn of public debt, it's a fire hose on an ocean: the wrong tool for a solvency problem, and one that adds bill-rollover risk and pressures Fed independence.**
- **The tariff revenue prop has been kicked away - The Supreme Court struck down the IEEPA tariffs 6-3 (Feb'26); ~USD 100 Bn of ~USD 166 Bn collected has been refunded. The inflationary cost persists (duties re-imposed under other authorities) while the fiscal benefit reverses - the worst of both, compounded by the Iran oil shock.**
- **No consumer backstop remains - Savings/GDP has collapsed to ~2% (from 22%), wage growth has halved to 3.8%, and the jobs-to-unemployed ratio is down to 1.06x; policy is carrying the whole load precisely when it is out of room.**
- **Market outlook - what cracks the calm - Geopolitics is a persistent overhang, not a fading one. The bigger fragility is the AI boom's circular financing; like the late-1990s, one fissure can unwind it, and this time it most likely originates in the banking sector as tighter funding severs the loop. The tell to watch is the 30-year yield through the buybacks; if it keeps rising, the props are being faded.**
- **India read: a vulnerability, not a haven - first-order down. Already underperforming global peers since mid-2024, with its own high debt (~85.5% of GDP), a structural current-account deficit and heavy crude-import dependence. If US yields spike and the yen unwinds, India sells off with the world as currency, oil and outflow channels bite at once, with rich valuations amplifying the drawdown. The rotation-destination case is real but strictly second-order.**

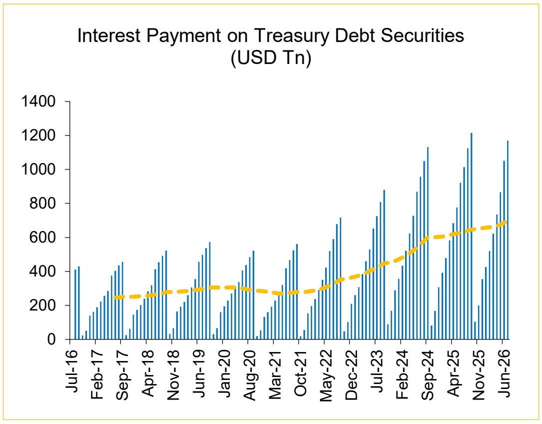
Purvi Mundhra
Email: purvi.mundhra@choiceindia.com
Ph: +91 22 6707 9241

US public debt has surpassed USD 40 Tn recently, amid a surging fiscal deficit



Source: CMIE, Choice Institutional Equities

US federal interest expense remains high at 33% of tax revenue, significantly higher than the pre-COVID levels



Source: CMIE, Choice Institutional Equities

***Solvency vs. liquidity:** The term premium is rising because the market doubts the fiscal path, not because dealers lack cash, and no amount of liquidity can fix a solvency problem.*

***The global problem:** With every large sovereign issuing at once, there is no low-yield jurisdiction left to absorb the supply, so US yields cannot fall far no matter what Washington does.*

The problem is solvency, and the policy response keeps pretending it's liquidity

The US enters this cycle carrying a debt burden that has moved from large to structurally unmanageable, and the raw numbers make the shift hard to miss. Federal debt is past USD 40 Tn, debt/GDP sits at 123% and is climbing toward the 133% record, and outlays near USD 7 Tn run well ahead of USD 5.2 Tn of receipts, leaving a deficit that has widened to USD 1.8 Tn (Jul'26 FYTD) from USD1.6 Tn a year earlier. The cleanest gauge of the squeeze is the interest bill: federal interest expense now runs at 35% of tax revenue, far above pre-COVID levels. One dollar in three that the government collects is pre-committed to servicing debt before it meets any other obligation.

This is the core analytical point, and everything flows from it: the term premium is rising because the market doubts the fiscal path, not because dealers lack cash. Every tool the US has reached for - buybacks, the yen operation, the repo backstop; are all liquidity tools. Applying liquidity tools to a solvency problem is why each produces a few hours of calm and then fades. One cannot repurchase their way out of a credibility problem that your own issuance calendar keeps reaffirming.

The US is the loudest case of a global problem, and that's why yields can't fall

The US fiscal position would be easier to finance if it were an outlier, but it is not. The deeper problem is that every large sovereign is issuing into the same pool of savings at once, so no low-yield jurisdiction is left to absorb the supply. When the whole world levers up together, the marginal buyer of duration demands a higher term premium everywhere, and US yields cannot fall far while the global backdrop is pushing the other way.

The aggregate is staggering. According to the Institute of International Finance (IIF) Global Debt Monitor, global debt surged by nearly USD 29 Tn during 2025, pushing the worldwide total to a record USD 348 Tn. Advanced economies accounted for most of the increase. Continued fiscal expansion and regulatory adjustments are expected to drive further debt accumulation, raising legitimate concerns about long-term sustainability.

The same constraint shows up across sovereigns, which is what makes it systemic rather than idiosyncratic:

- Eurozone: average debt-to-GDP near 90%.
- United Kingdom: about 105%, alongside a 4.7% deficit.
- Japan: the extreme, with a ratio exceeding 250% and persistent 4–5% deficits. This is not a side note: Japan's own fiscal trajectory is precisely why its yields are normalising higher, which is the force compressing the US–Japan differential.
- China: an official figure around 80%, excluding a sizeable hidden local-government obligation.
- Emerging markets: averaging 65–70%, though outliers such as India (~85.5%, or INR 325 trillion by FY27E) and Brazil (~90%) face tighter margins.

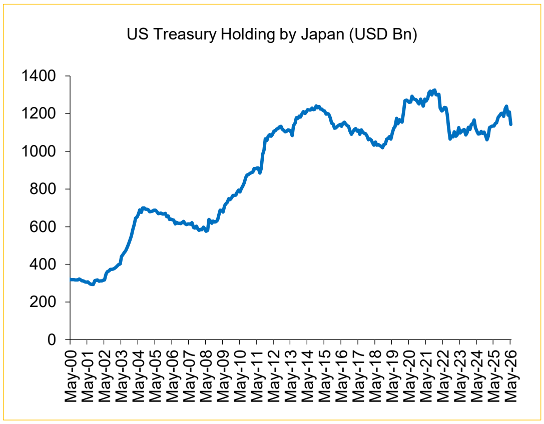
In a normal cycle, capital fleeing one bond market finds a home in another, capping how far global yields can rise. This time the largest issuers are levering up simultaneously into slowing growth and sticky inflation, so the usual pressure valve is shut. Every sovereign is competing for the same duration buyer; term premia are being repriced higher as a group; and the US, the biggest issuer with the least political will to consolidate, sits at the centre of it. Term Premia for the US 10-year Treasury have risen consistently and remained positive since Sep'24. At 0.8%, it is similar to the levels seen during the Taper Tantrum in 2013. That systemic backdrop is why the interventions detailed below are fighting the tide, not just a domestic problem.

The yen intervention: a Treasury-market bailout dressed as FX policy

In early August, the US joined Japan to buy Yen, the first coordinated US–Japan yen intervention since 1998, and the rare case of direct US participation. The official framing was a yen at four-decade lows, but the real driver was self-preservation.

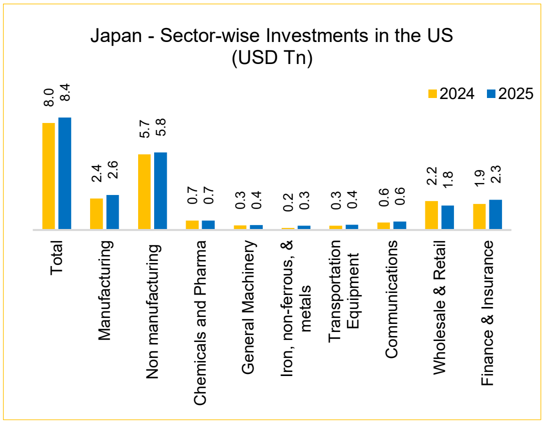
Japan is the largest foreign holder of US Treasuries (USD 1.1 Tn). Had Japan intervened alone, the natural funding source would have been selling Treasuries and driving US yields up exactly when Washington cannot absorb it. US participation, plus the pointed reminder that the Fed's FIMA repo facility lets Japan raise dollars against its Treasuries rather than dumping them, existed to neutralise that forced-seller risk. This was a defence of the US bond market with a Japanese label on it.

US treasury held by Japan increased 94% of the post-COVID peak since the start of Trump 2.0, but has been falling recently



Source: CMIE, Choice Institutional Equities

Japan's investment in the US is dominated in non-manf sectors (Trade & Finance), with a recent rise in manf



Source: CMIE, Choice Institutional Equities

For the first time in two decades, the differential is compressing from both directions at once. Japan is normalising up, the US capped and pressured by the fiscal/supply dynamics laid out above, while USD/JPY remains weak, near the four-decade lows that triggered the August intervention.

And the forced-seller risk is not hypothetical. Japan's holdings had recovered to 94% of their post-COVID peak through the start of Trump 2.0, but the recent drop is telling in its composition: Japan's short-term US Treasury holdings have fallen 54% since April 2026, and that liquidation lines up directly with the surge in short-dated US yields (the 2-year has risen more than the 10-year, flattening the curve). In other words, the mechanism the intervention is meant to prevent Japanese selling pushing up US funding costs- has already begun at the front end. It appears that the August operation is best read as an attempt to stop it spreading to the long end.

The second channel is the carry trade. A sharp yen appreciation makes borrowing yen to buy dollar assets unprofitable and can force a disorderly unwind, the mechanism that tanked global equities in August 2024. With the US–Japan yield gap compressed to 1.8% from over 5%, the cushion is thinner and the reflex is to stabilise, not strengthen, the yen.

And it has failed. USD/JPY popped to ~157 and drifted straight back toward 159. With US 10Y near 4.7% against ~2.8% on 10Y JGBs, the incentive to ship money offshore is fully intact. The operation squeezed speculators for a fortnight but changed no fundamental. Spending USD 5–10 Bn (US) on top of Japan's USD 50 Bn to move the pair by a few figures for a few weeks is not a policy success; it is an expensive demonstration of how little unilateral price control either side has.

Two decades of the yen–rate nexus; and why 2024–26 is a turning point, not a continuation

The intervention only makes sense against the twenty-year mechanism that links four variables into a single chain: the US–Japan rate gap sets the incentive, the incentive drives capital flows, the flows move USD/JPY, and Japan's Treasury holdings lag the whole thing. When US rates sit above Japan's, the default state since the 1990s, yen-funded money chases the dollar yield, weakening the yen and feeding US bond demand. Official Japanese holdings follow the same impulse, but slowly and imperfectly, because they answer to intervention and reserve policy rather than the spread alone.

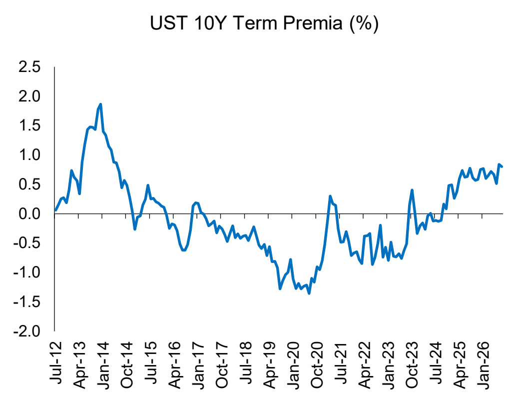
Historically, three patterns recur, and all three matter now:

- The rate gap leads; FX follows; official holdings lag and frequently decouple. In 2001–05 a wide US-over-Japan gap and heavy Japanese dollar-buying intervention pushed holdings up and the yen down together. But from 2006–08, and again through 2014–18, official holdings fell even as the carry incentive was alive. This is a reminder that Japan's Treasury stock is not a clean read on the yield gap.
- When the rate gap collapses, the yen's safe-haven property takes over. It doesn't drift, but snaps. In 2008–14, the Fed's zero-rate policy erased the differential. USD/JPY first fell hard (crisis-driven yen surge as carry trades unwound and were mechanically bought back) before Abenomics and BoJ QQE deliberately drove it back up into 2015. The lesson is the non-linearity: a disappearing gap can send the yen violently higher, regardless of the absolute level of yields.
- The policy-rate gap and the 10-year yield gap can diverge, and the divergence is where the risk lives. The policy-rate gap is set by central banks; the 10-year gap embeds expectations and term premium. Through 2014–18 both US and Japanese 10Y yields fell, but Japan's fell below zero, so the gap widened even as absolute yields dropped, pulling FX and flows in opposite directions.

2021–24 built the fragility. The US hiked aggressively while the BoJ held; the differential blew out, and USD/JPY strengthened to multi-decade lows. A classic textbook carry: a huge gap, a massive outflow, a dumped yen. But the turn was already visible in the detail: Japan's rate, though still below the US, was rising and went positive by end-2023 as the BoJ exited negative rates and YCC, while the US 10Y began rolling over. The gap peaked and started closing from both ends. Holdings kept falling. That is the definition of a stretched, one-way trade sitting on top of a differential that has quietly begun to reverse.

2024–26 is the regime change. For the first time in two decades, the differential is compressing from both directions at once. Japan is normalising up, the US capped and pressured by the fiscal/supply dynamics laid out above, while USD/JPY remains weak, near the four-decade lows that triggered the August intervention. Two details sharpen the point. First, Japan's own yield curve has shifted higher than in 2016. The long end is rising faster than the short end, a bear-steepening that makes repatriating capital into JGBs progressively more attractive and raises the opportunity cost of the carry trade. Second, Japan's holdings are no longer just starting to fall in the aggregate, but the short-term book has already dropped 54% since Apr'26. This indicates a concrete beginning of the very unwind our framework predicts.

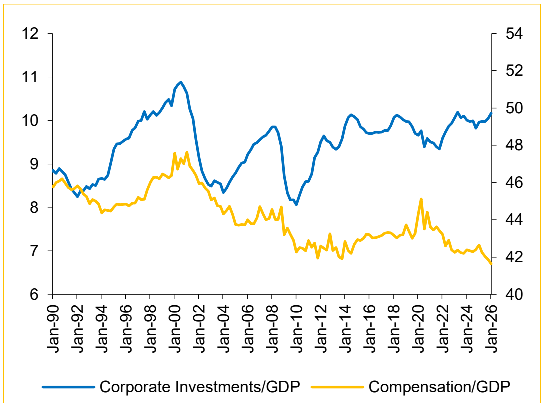
Persistently rising US term premium due to inflation worries, debt dynamics, and concerns around Fed independence



Source: CMIE, Choice Institutional Equities

The base case, then, is not a clean break but a managed, intervention-heavy descent. The risk case is that one of these defences fails to hold: a BoJ hike, a US fiscal shock, or simply positioning too large for USD50–60bn operations to contain; and the snap-back happens anyway, faster for having been delayed.

Corporate Investment (NFCs) remains flat as a % of GDP, but the compensation continues to decline as a % of GDP



Source: CMIE, Choice Institutional Equities

The fundamental driver has already turned against the weak yen, but the spot rate and the bulk of positioning have not caught up. A narrowing gap with a still-crowded carry trade and a front-end liquidation already underway is precisely the condition for a disorderly snap-back. This is why the US intervened to manage the pace rather than let the market clear on its own.

Why this pulls Washington toward more intervention, not less

Put the mechanism together with the incentive structure and the conclusion is uncomfortable: the same forces make further US intervention in the yen and JGB markets, more likely, not less. The reasoning:

- The trigger is now endogenous to the US. Historically, a yen snap-back needed a BoJ surprise. This time, one side of the compressing gap is the US long end backing up under its own debt and supply. This means US fiscal stress can itself set off the carry unwind. Thus, the US's direct, self-interested reason to keep intervening whenever the yen threatens to appreciate disorderly. The intervention is no longer a favour to Japan; it is a defence of US markets against a fuse the US is lighting.
- The unwind hits the US through three channels at once. A forced carry unwind (a) drains a major source of global market liquidity, forcing leveraged investors to cut risk across equities, bonds and FX; (b) raises the risk that Japan sells Treasuries to fund its own yen support, pushing US yields up; and (c) lands on the same long-end, AI-heavy, credit-sensitive complex the buybacks are already trying to protect. Each channel argues for capping the speed of yen appreciation.
- The cheapest tool is the backstop, not the FX trade. We expect the escalation to run through the Fed's FIMA repo facility first. This will lead Japan to raise dollars against its Treasuries instead of selling them as it defends the Treasury market without spending reserves or admitting the FX operation isn't working. Direct yen-buying is the visible, second-line tool; the repo backstop is the quiet, preferred tool. One needs to watch for its expansion as the leading tell.
- But such interventions only treat the symptom and worsen the disease. Every prop under the yen buys time for a carry trade that fundamentals say should unwind. And because it can't lift Japanese rates or lower US yields, it doesn't touch the gap that drives the trade. The August operation already demonstrated this: it "turbo-charged" the carry trade by handing long-term investors a better entry. Each successful defence therefore makes the next unwind larger, and the next intervention will be a ratchet and not a fix.

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The AI-issuance squeeze: the second reason the long end can't be left alone

Bessent said the quiet part out loud: a flood of corporate issuance is distorting the market, much of it funding AI capex. That supply competes directly with the Treasury for the same duration buyers.

More long-end supply → higher term premium → wider spreads → a higher cost of capital across the entire AI investment complex.

The circularity is the risk. If long yields keep grinding higher: financing costs rise → corporate credit strains → the AI-led equity leadership that has carried the index reprices → financial conditions tighten → growth softens → the deficit widens further.

Pinning the long end is therefore doubling as a backstop for the equity and credit narrative. That backstop is already leaking as yields are rising through the buybacks, which is the market telling us that the supply is winning.

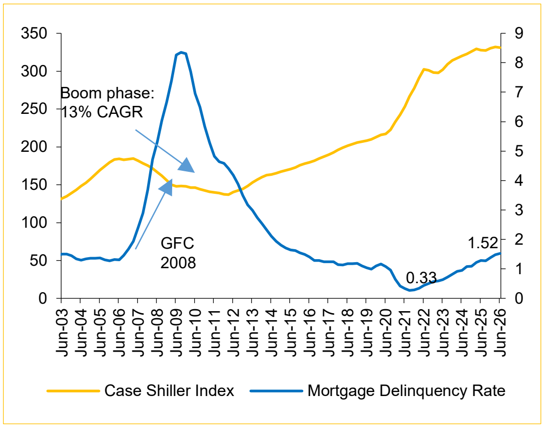
Bessent's buyback: Operation Twist with a squirt gun

On 19 August, Treasury announced it would "at least double" buybacks to USD 4 Bn+/operation in the 10-to-30-year sector (9 Sep–4 Nov); the next day Bessent said it "could be more than USD 4 Bn per issue" and that Treasury would "make a market" in the long bond because, in his telling, yields don't reflect fundamentals.

The impact curve is damning in its brevity:

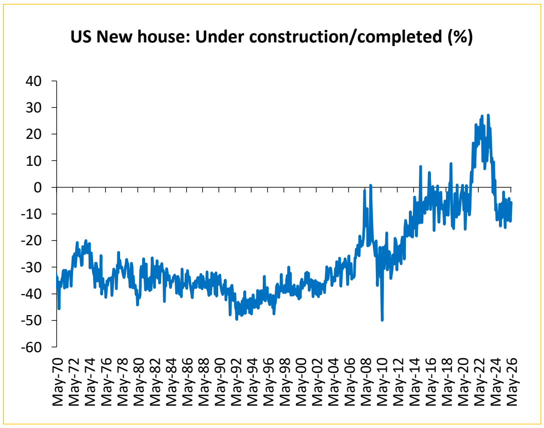
- Day one: the 30-year fell 9–10bp off a 19-year high, the 10-year dropped to 4.65%, equities rallied, the dollar fell 0.8%.
- Within 48 hours: It was fully reversed. By 21st August, the 30-year was back above 5.27%, higher than before Bessent moved, with the 10-year erasing its decline.

Mortgage delinquency rates have increased to 2006 levels as house prices slow reflected by the Case Shiller Index



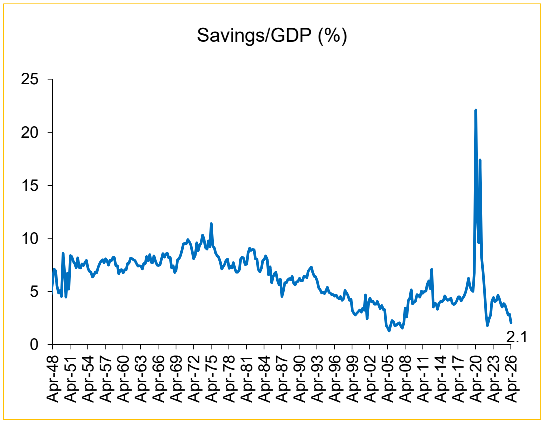
Source: CMIE, Choice Institutional Equities

Negative ratio of houses under construction relative to completions reflects a thinning construction pipeline



Source: CMIE, Choice Institutional Equities

Savings have declined to 2.1% of GDP, levels last seen during the GFC-2008



Source: CMIE, Choice Institutional Equities

This fails for reasons that are structural, not tactical:

- **Scale is a rounding error.** USD 4 Bn per operation against USD 32 Tn of debt held by the public is, in one apt phrase, "a fire hose on an ocean." It lubricates thin August trading; it cannot absorb the supply ahead.
- **Wrong instrument for the disease.** Buybacks treat liquidity. The disease is a solvency-driven term premium - deficits, inflation, a sticky dollar, and supply. It could backfire if it is seen as signalling concern about the ability to fund longer-term at an acceptable cost. When the tool itself signals concern, it can further raise the term premium it's meant to suppress.
- **It manufactures new fragilities.** Suppressing the long end while tilting issuance to bills makes the debt stock more sensitive to every future rate move, and it pressures an independent Fed to accommodate fiscal policy. That raises the odds of inflation remaining elevated and sticky, with the Fed holding rates higher for longer. This is exactly the opposite of what a buyback is supposed to engineer. Bessent is optimising for the near term; price stability is the thing being mortgaged.

There is no reading of the tape on which this "works" in the sense of durably lowering yields. It buys days. The bill comes due at the next refunding.

TGA and the bill-funding sleight of hand

The buyback doesn't stand alone; it sits on top of a cash-management strategy that leans ever harder on short-dated bills, with the Treasury General Account run down and rebuilt to smooth the optics. This is the same trade dressed differently: pull the appearance of long-end calm forward, push the rollover risk out. Every basis point of "stability" bought at the front end is a basis point of added sensitivity when rates move against you. The honest place to watch the stress is the quarterly refunding and the bill-share guidance, not the headline buyback size. That is where a bill-heavy structure will eventually bite.

Tariffs and war: the revenue prop just got kicked away

There is a further wrinkle that makes the fiscal picture worse, not better. Through early 2026, customs receipts surged on the back of the tariff regime, a rare revenue offset against the deficit. That prop is now being pulled: the momentum has stalled and then reversed as court orders unwound the tariff-led collection. The legal reality is stark. The Supreme Court struck down the IEEPA tariffs 6-3 in February 2026, and by end-July the government had already refunded roughly USD100 Bn of the ~USD166 Bn collected, with more litigation pending as states challenge the replacement duties. The one-line item that was helping the deficit has partly gone into reverse, turning a revenue source into a refund liability.

The shocks therefore hit both sides of the ledger:

- Tariffs raised import costs and consumer prices, keeping inflation above target and capping how far the Fed can cut, while the offsetting revenue is being clawed back by the courts. The administration is re-imposing under alternative authorities (Section 301 and others), so the inflationary cost largely persists even as the fiscal benefit is refunded away: the worst of both.
- The Iran war delivered an oil shock that lifted global crude, feeding inflation (a direct cause of the yen pain) and layering on fiscal and geopolitical risk premia.

The trap is the simultaneity: the shocks widen the deficit and raise inflation risk, disabling the two escape levers: rate cuts and fiscal space, at once. And the tariff reversal removes the single revenue offset that was flattering the fiscal math. A heavily indebted sovereign hit this way doesn't get to grow out of it cheaply.

No consumer backstop left

And there's no household cushion to lean on. Savings/GDP has collapsed to ~2% from a 22% pandemic peak. Home prices sit near records (Case-Shiller ~331) while housing starts and housing completions roll over and mortgage delinquencies lift off their lows, signalling early stress and not stability. Wage growth has decelerated to 3.8% from the post-COVID peak of 6.7%, and the jobs-to-unemployed ratio has halved to 1.06x. A stretched consumer with an empty savings buffer means policy is carrying the whole load, precisely when policy is out of room.

Market Outlook – What Cracks the Calm

The through-line for markets is simple: everything above converges on the cost of money at the long end, and that cost is the one variable the interventions cannot durably control. If the risks are contained, the props hold, and yields grind sideways, which appears to be a less likely scenario. And if they are not, then the borrowing costs rise, and the transmission is fast, mechanical, with a widespread impact.

A fragmenting world is a structurally higher-risk-premium world, another reason the low-yield regime is not coming back anytime soon.

Geopolitics is a persistent overhang, not a fading one - It would be a mistake to price the Iran conflict as a risk that is on its way out. Even if the intensity of active hostilities ebbs, the confrontation is structural and will not resolve soon. It stays live, and markets are likely to remain wary, with each incremental headline or data point capable of moving prices out of proportion. Any miscalculation or localised escalation can reverse a perceived calm quickly. The episode also sits inside a larger realignment: the evolving US–China–Russia dynamic, Washington's efforts to contain China's technological and economic rise, and the growing de-dollarisation conversation all point to a more fragmented, contested order. A fragmenting world is a structurally higher-risk-premium world, another reason the low-yield regime is not coming back anytime soon.

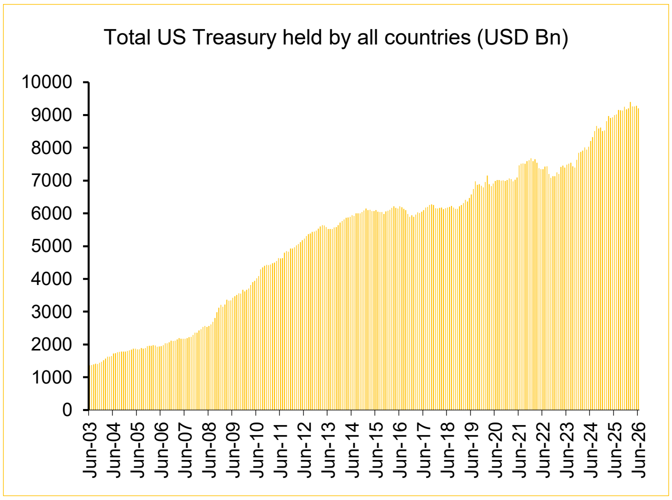
The AI boom has been largely financed - record corporate issuance, vendor financing, and circular capex commitments where the same dollars cycle between chipmakers, hyperscalers and their customers. That circularity flatters both revenues and valuations on the way up; it reverses on the way down. If financing conditions tighten, precisely the higher-long-end scenario, the circular flows that sustain the boom break, credit is repriced, and the correction propagates from the plumbing back into the equity leadership.

The bigger fragility is the AI boom itself, and where it breaks matters - US equities can keep running on AI fuel for a while; the more useful question is what cracks the run, not when it ends. The setup rhymes with the late-1990s: a genuine technological transformation, a self-reinforcing capex-and-valuation loop, and a market leadership so concentrated that a single fissure can bring down the whole. The dot-com bust needed only one crack to unwind the euphoria. This time the fissure is more likely to originate in the banking sector specifically. The AI boom has been largely financed - record corporate issuance, vendor financing, and circular capex commitments where the same dollars cycle between chipmakers, hyperscalers and their customers. That circularity flatters both revenues and valuations on the way up; it reverses on the way down. If financing conditions tighten, precisely the higher-long-end scenario, the circular flows that sustain the boom break, credit is repriced, and the correction propagates from the plumbing back into the equity leadership. The trigger to watch is not an AI-demand disappointment but a funding-market or credit lapse event that severs the loop.

If US yields spike and the yen unwinds, India sells off with the world, as the currency, oil, and outflow channels all bite at once, and rich valuations amplify the drawdown rather than blunt it. The rotation-destination case is real but strictly second-order and conditional.

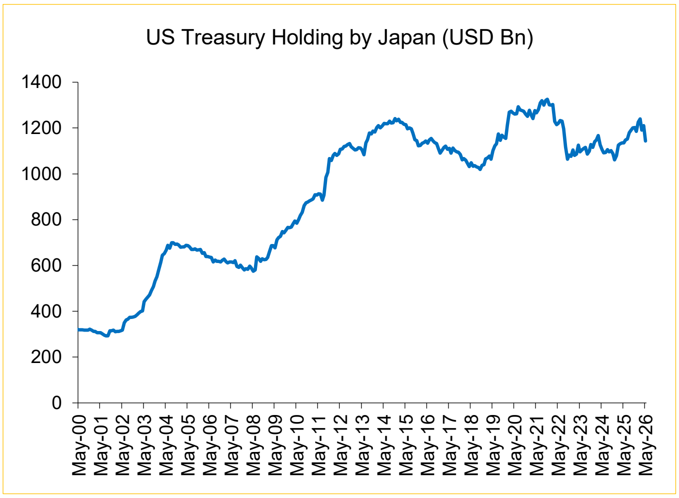
From the India market standpoint, equity markets are navigating elevated uncertainties around corporate earnings, capital flows, and valuations. Even before the Iran conflict intensified, Indian equities had underperformed most global benchmarks since mid-2024. The full economic impact of the shock is still unfolding, and shifting geopolitical realities point to the potential for recurrent disruptions ahead. India also enters this with its own constraints rather than as a safe haven. The sovereign carries a high debt load itself (around 85.5% of GDP, INR 325tn by FY27E) and there is a structural current-account deficit alongside a very high crude-import dependence. In this specific scenario, those are vulnerabilities, not cushions. If US yields spike and the yen unwinds, India sells off with the world, as the currency, oil, and outflow channels all bite at once, and rich valuations amplify the drawdown rather than blunt it. The rotation-destination case is real but strictly second-order and conditional.

Total US Treasury holdings by all countries have been flattening since mid 2025



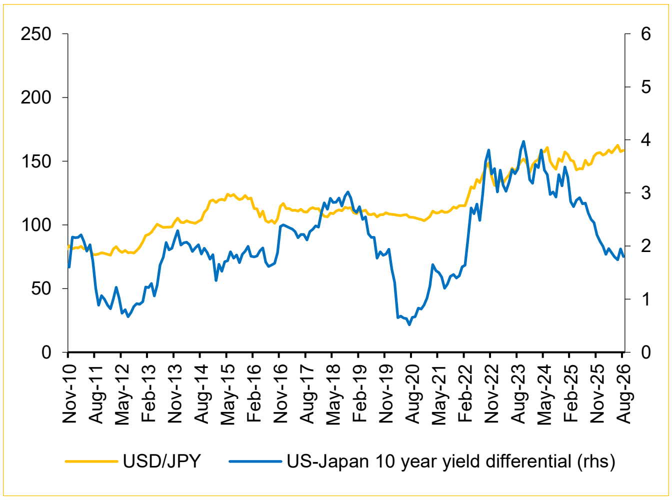
Source: FRED, Choice Institutional Equities

US treasury holding by Japan rose to 94% of the post-COVID peak since the start of Trump 2.0, but has been falling recently



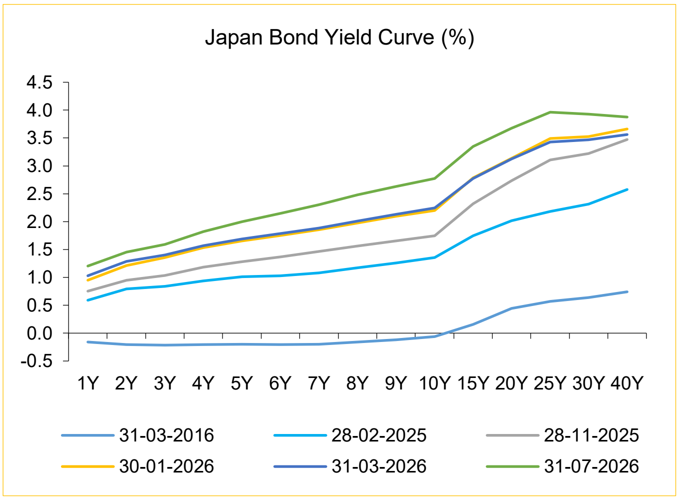
Source: FRED, Choice Institutional Equities

Narrowing yield differential between the US and Japan, along with a depreciating currency



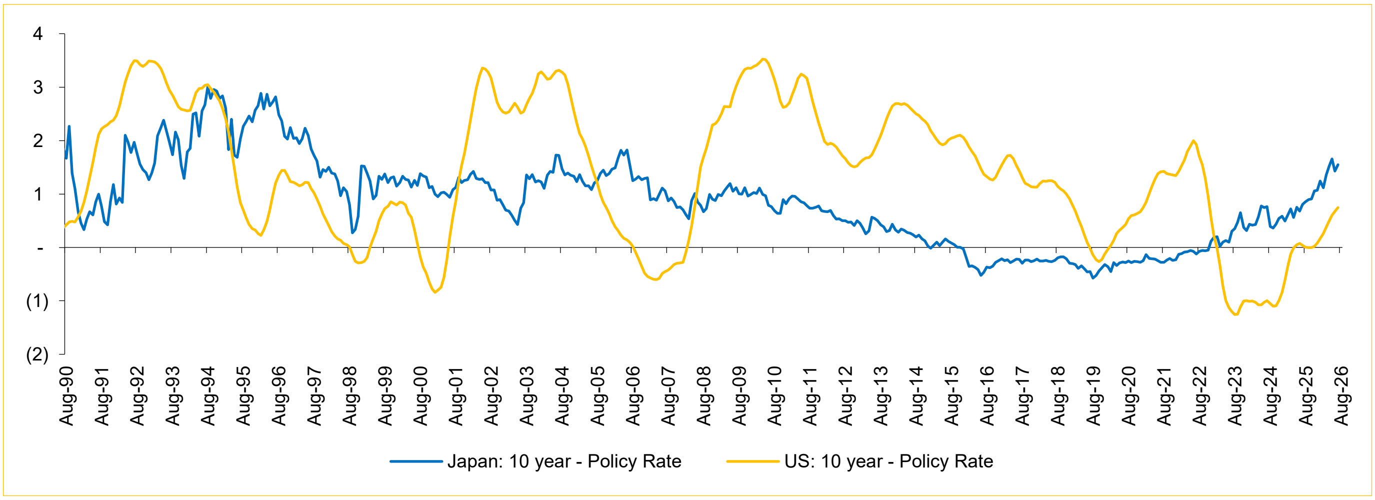
Source: FRED, Choice Institutional Equities

Japan yield curve has shifted higher compared to 2016, with long end rising faster than the shorter end



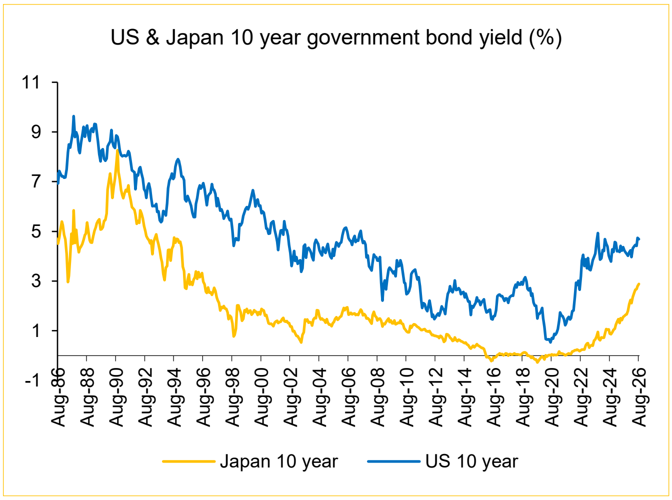
Source: BOJ, Choice Institutional Equities

Rising 10-year and policy rate differential for the US and Japan; It is rising for the first time for Japan in more than three decades, while for the US, it turns positive



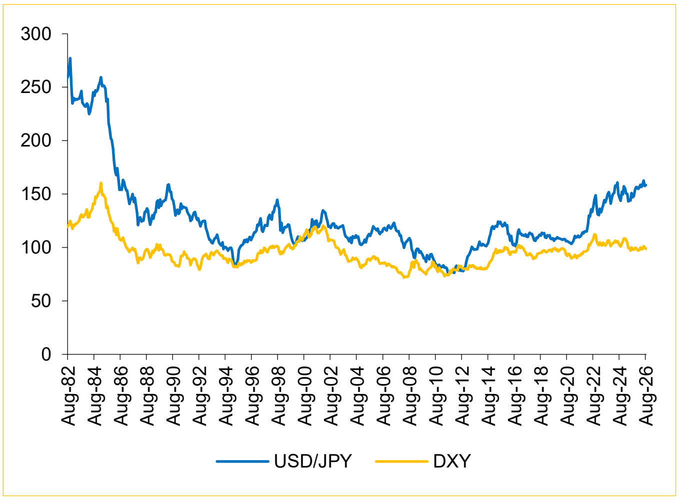
Source: FRED, BoJ, Choice Institutional Equities

Japan 10-year bond yields increased to the levels seen in 1996, significantly higher than that for the US 10-year bond yields



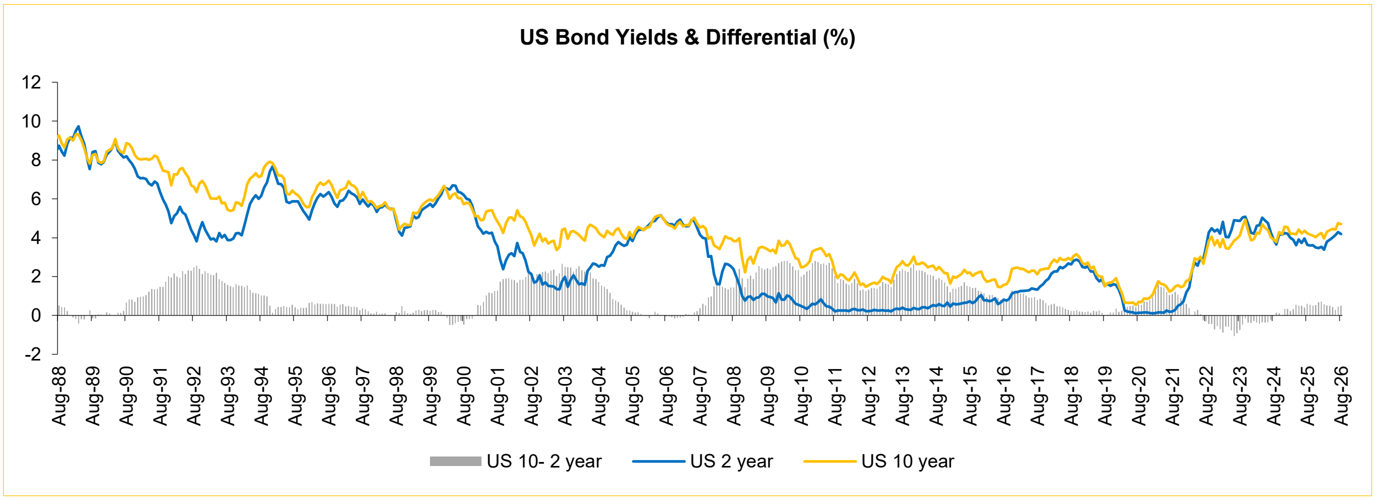
Source: FRED, Choice Institutional Equities

Gap between USD/JPY and the Dollar index widens as the USD/JPY rises significantly while the Dollar index moderates



Source: FRED, BoJ, Choice Institutional Equities

US 10-year/2-year yield spread has remained positive since 2025 but remains below historical norms. As 2-year yields have risen more than 10-year yields, the curve has flattened, often associated with a more challenging late-cycle stagflationary environment



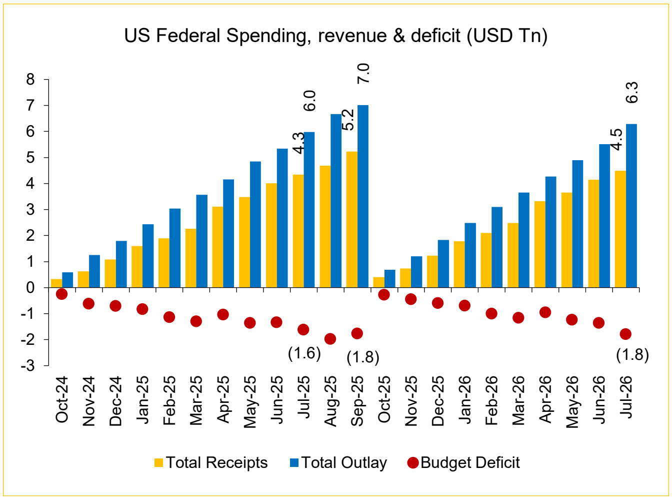
Source: FRED, Choice Institutional Equities

Japan's Treasury holdings was recovering from the post-COVID decline. The recent sharp drop is concentrated largely in short-term Treasuries, driving a surge in short-term US bond yields. Japan's short-term US Treasury holdings have fallen 54% since Apr'26.

	%	%	%	USD Bn	%	USD Bn	%	USD Bn	%
	%YoY		2.5 yr CAGR	Incremental	Share in incremental	Incremental	Share in incremental	Incremental	Share of rise/fall in incremental between Apr-Jun'26
	Dec'23-Jun'26	As a % of total	Dec'23-Jun'26	Dec'23 - Jun'26	Dec'23 - Jun'26	Dec'23 - Apr'26	Dec'23 - Apr'26	Apr'26-Jun'26	Diff over Apr'26
US Long Term Treasury									
Overall	15.1		5.6	1025.4		1005.2		20.1	0.3
China		7.5	-11.5	-210.9	-20.6	-193.3	-19.2	-17.6	-2.9
Japan		13.4	0.7	16.9	1.7	27.2	2.7	-10.3	-1.0
US Short Term Treasury									
Overall	31		11	334.0		405.5		-71.6	-5
China		3.2	46	27.9	8.4	28.0	6.9	-0.1	-0.3
Japan		5.0	-7.4	-15.5	-4.6	67.4	16.6	-82.9	-54.1
US Total Treasury									
Overall	17.3		6.3	1359.4		1410.8		-51.4	-0.6
China		6.9	-9.3	-182.9	-13.5	-165.2	-11.7	-17.7	-2.7
Japan		12.1	0.05	1.4	0.1	94.6	6.7	-93.2	-7.7
US Corp Bond Holding									
Overall	22.9		8.2	993.8		865.4	0	128.4	2.5
China		0.3	-7.8	-3.7	-0.4	-2.3	-0.3	-0.8	-4.9
Japan		5.9	0.8	6.3	0.6	4.1	0.5	0.8	0.3

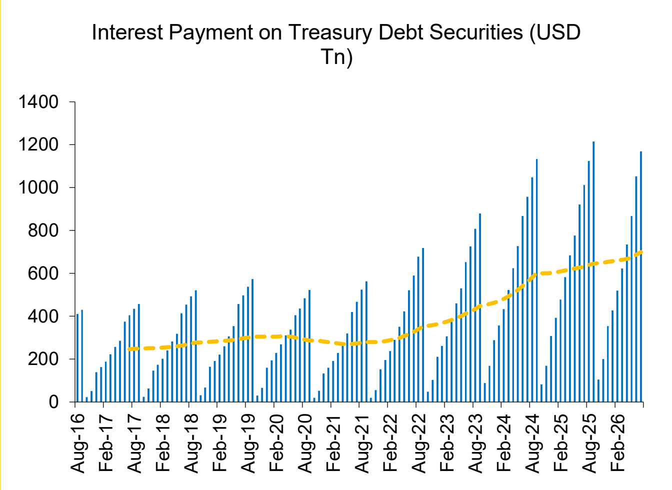
Source: FRED TIPS, Choice Institutional Equities

US Federal deficit has already risen to USD 1.8 tn in Jul'26 compared to USD 1.6 tn in Jul'25 last year



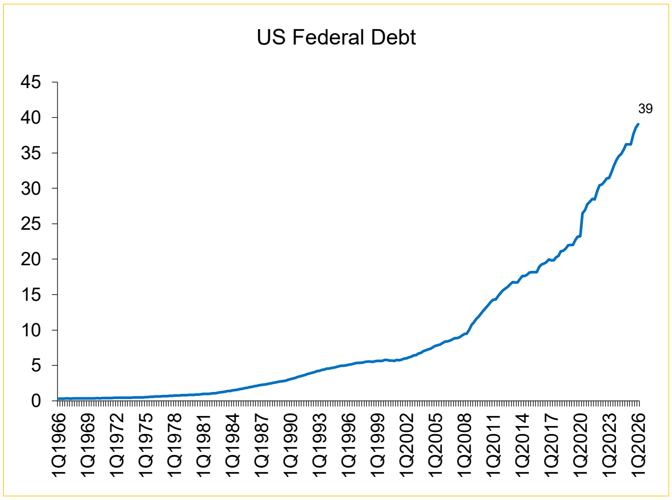
Source: FRED, Choice Institutional Equities

US federal interest expense remains high at 33% of tax revenue, significantly higher than the pre-COVID levels



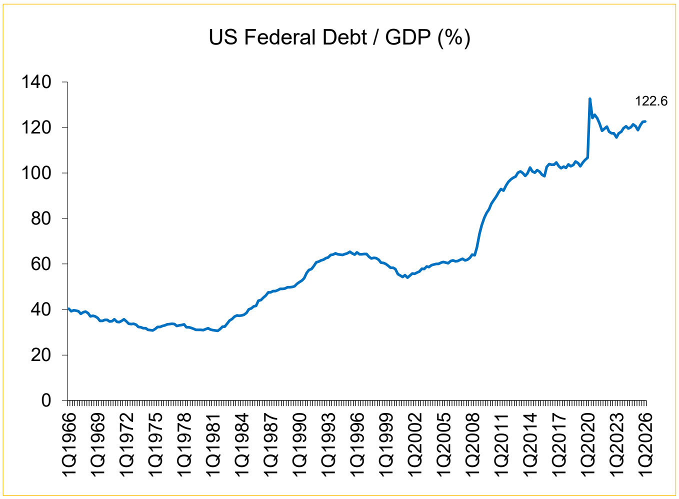
Source: FRED, Choice Institutional Equities

US public debt has surpassed USD 40 Tn recently, amid a surging fiscal deficit



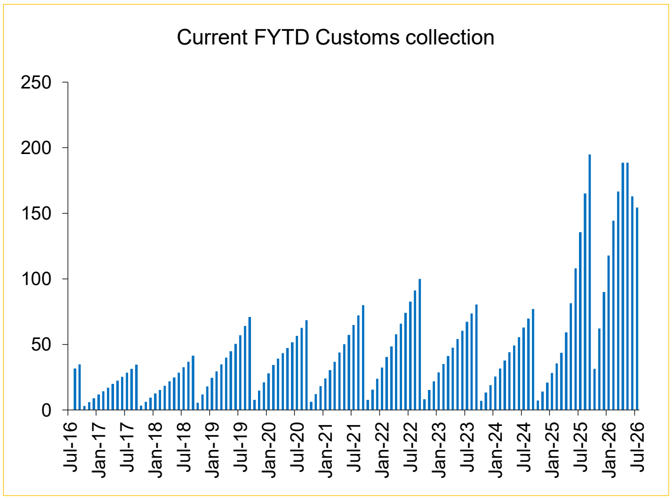
Source: FRED, Choice Institutional Equities

Pushing the debt to 122.6% of GDP, significantly higher than the pre-COVID levels despite the post-COVID correction



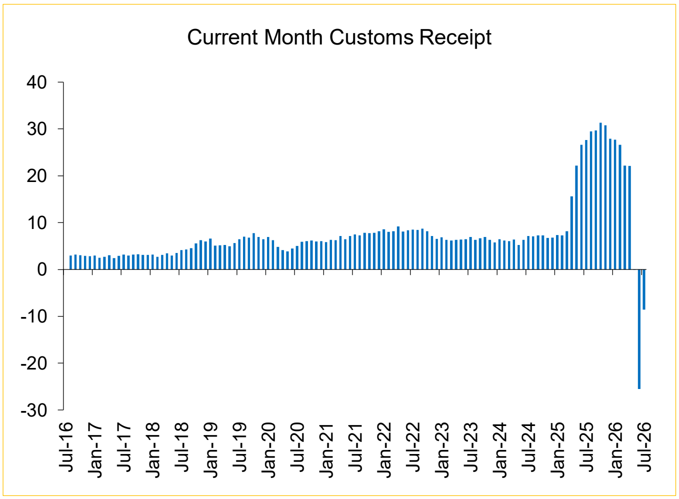
Source: FRED, Choice Institutional Equities

Customs receipts have surged due to higher tariffs but the momentum is slowing…



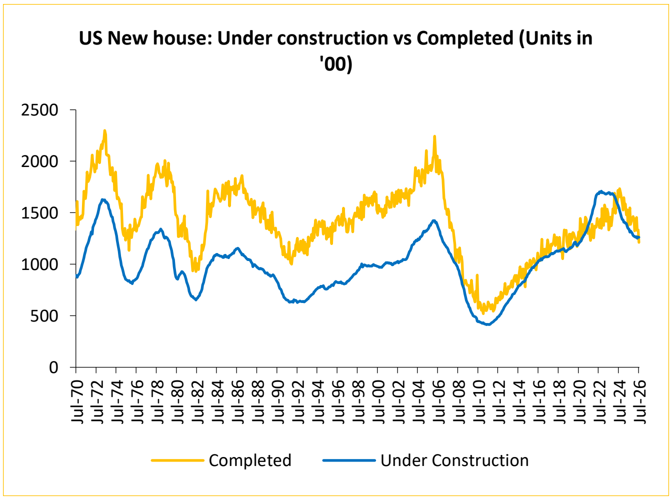
Source: FRED, Choice Institutional Equities

…as the court orders have led to the reversal of the higher tariffs-led customs collection



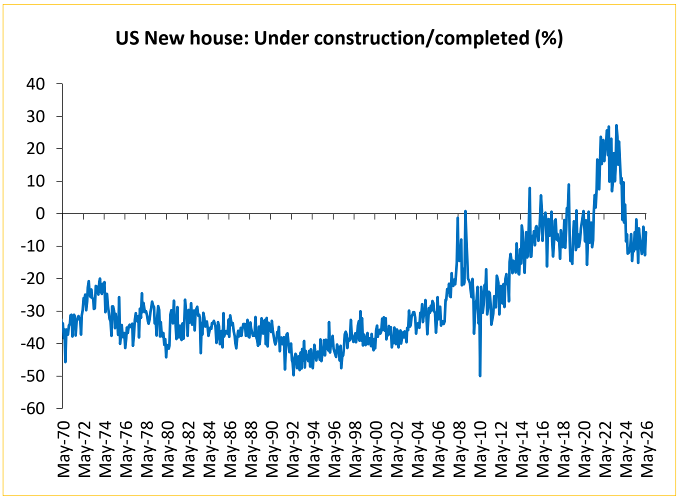
Source: FRED, Choice Institutional Equities

Under construction & completed house units are declining (akin to 2007 crisis) due to unaffordability



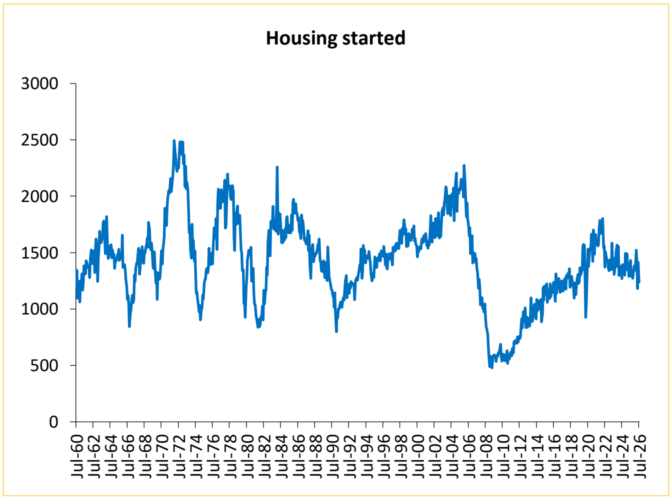
Source: FRED, Choice Institutional Equities

Negative ratio of houses under construction relative to completions reflects a thinning construction pipeline



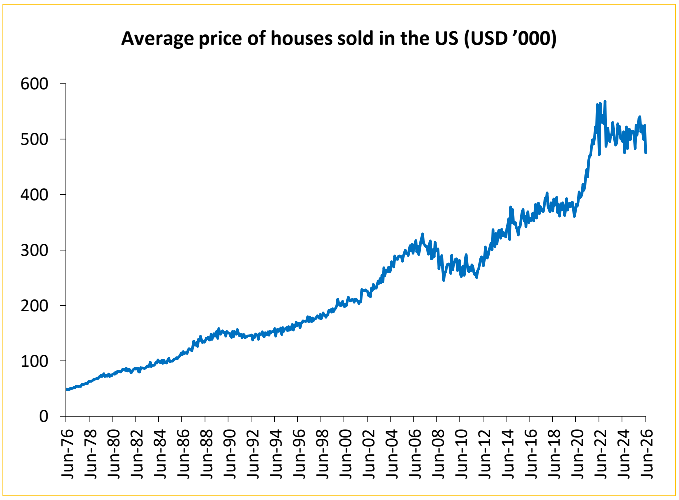
Source: FRED, Choice Institutional Equities

Reduced demand for houses has led to fall in housing starts



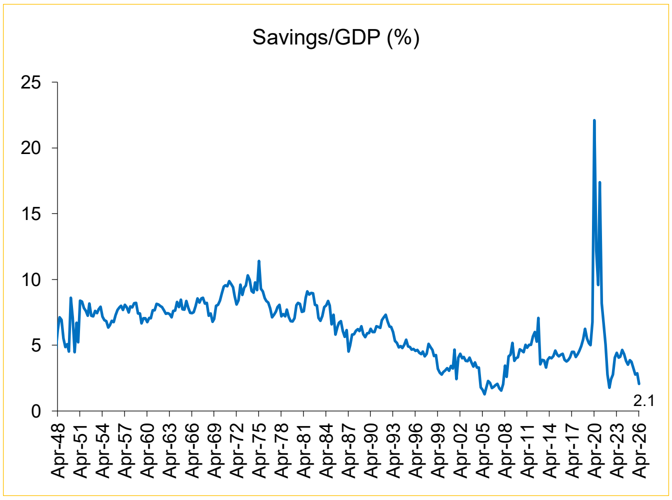
Source: FRED, Choice Institutional Equities

After stagnating for more than 3 years, house prices have started to correct, triggering a rise in mortgage delinquency rate, which has already started to rise



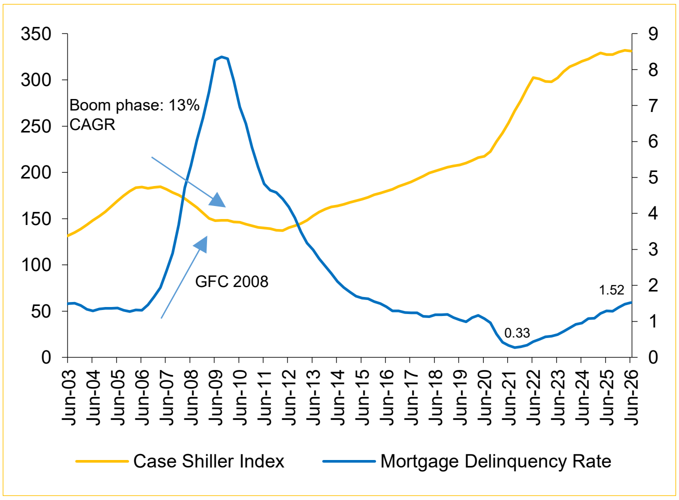
Source: FRED, Choice Institutional Equities

Savings have declined to 2.1% of GDP, levels last seen during the GFC-2008



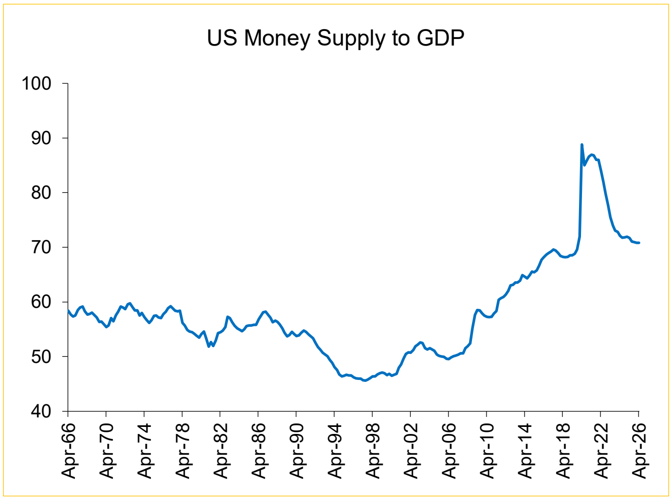
Source: FRED, Choice Institutional Equities

Mortgage delinquency rates have increased to 2006 levels as house prices slow reflected by the Case Shiller Index



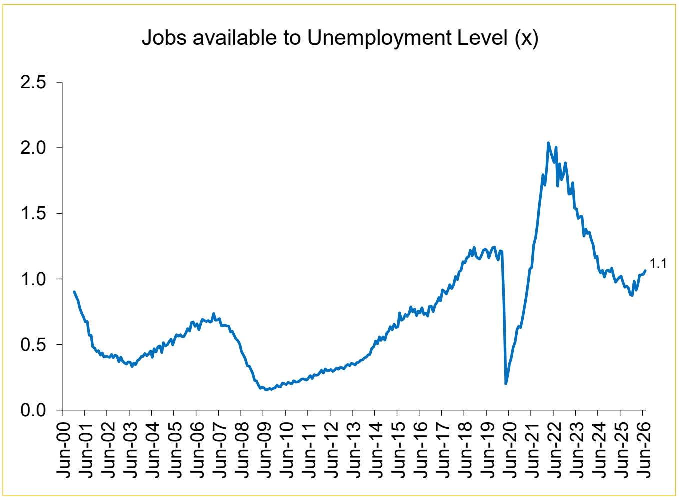
Source: FRED, Choice Institutional Equities

US money supply GDP has declined sharply from the COVID peaks but remains higher than the pre-COVID levels



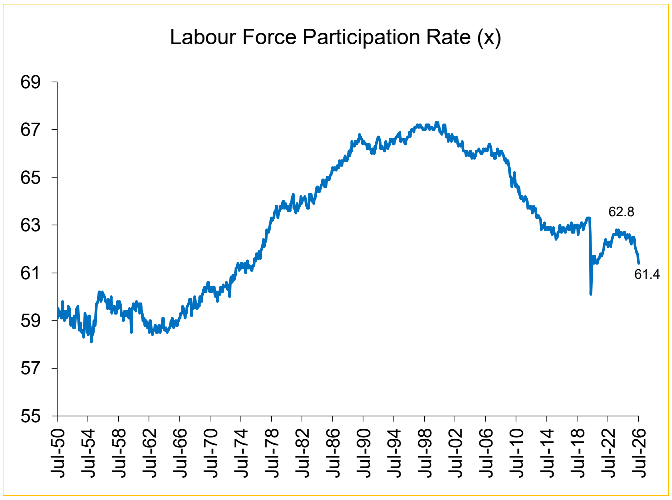
Source: FRED, Choice Institutional Equities

Rising ratio of jobs available to unemployment level indicates that the labour market is pivoting towards tighteness



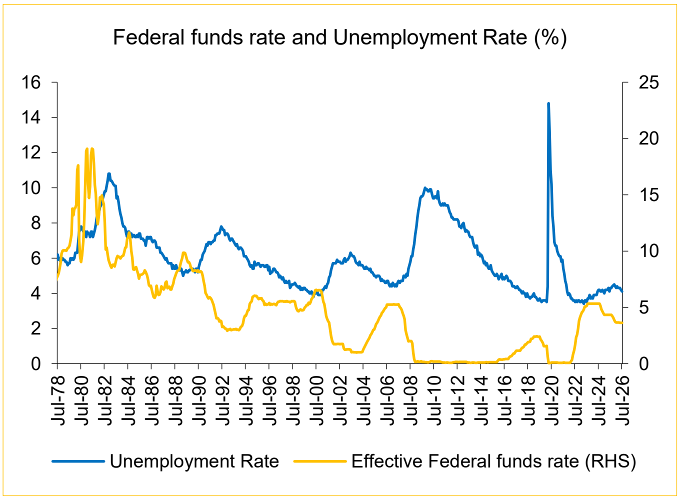
Source: FRED, Choice Institutional Equities

Tightness in the labour market is also due to the falling labour force participation rate in the US



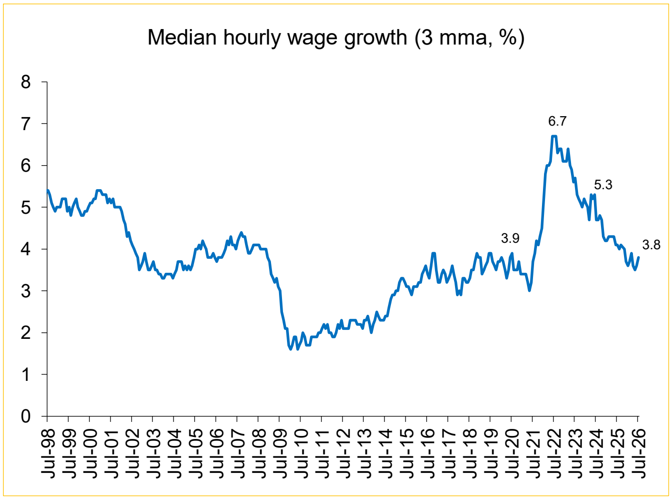
Source: FRED, Choice Institutional Equities

Unemployment edged higher while the Fed funds rate moderated recently, reflecting a higher-for-longer policy



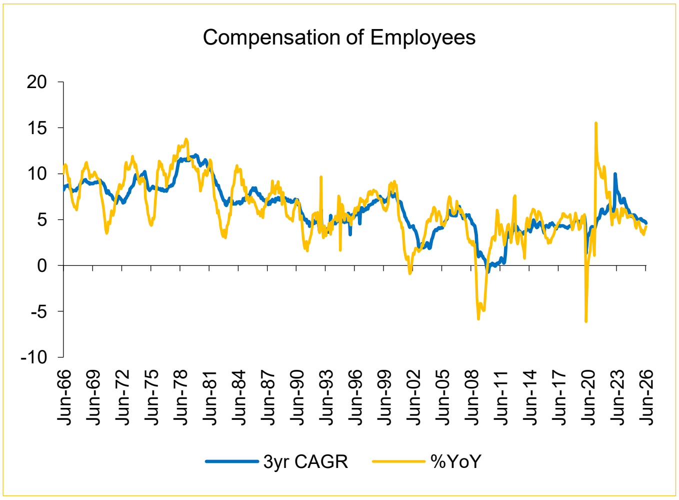
Source: FRED, Choice Institutional Equities

Median hourly wage growth has been consistently declining and is closer to the pre-COVID levels



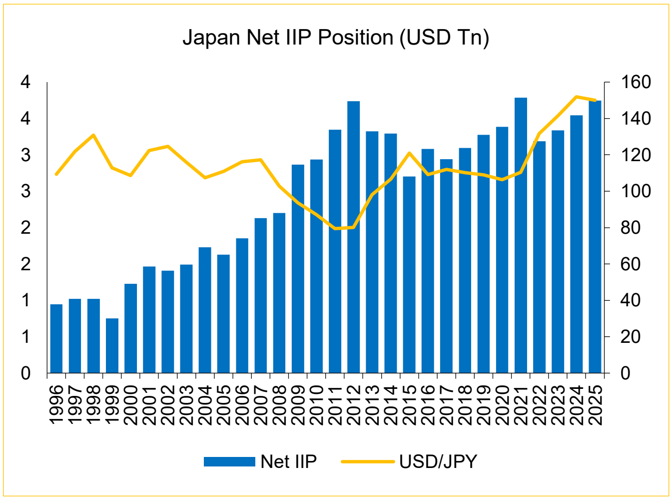
Source: FRED, Choice Institutional Equities

Compensation of employees grew by 4.3% and has fallen to pre-COVID levels



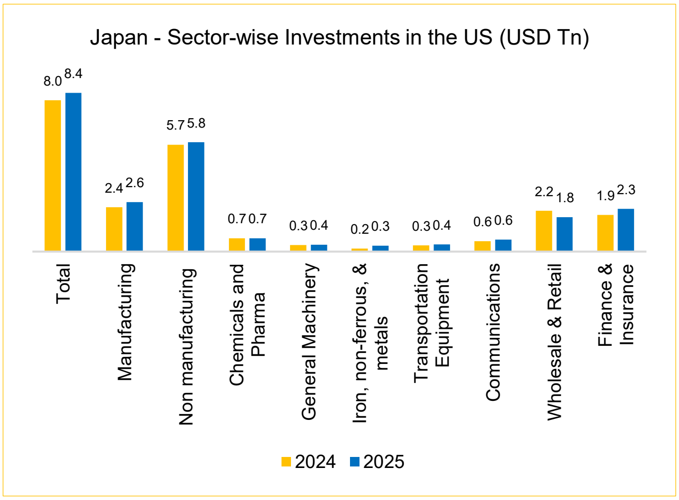
Source: FRED, Choice Institutional Equities

Japan's net international investment position has recovered to the post-COVID highs



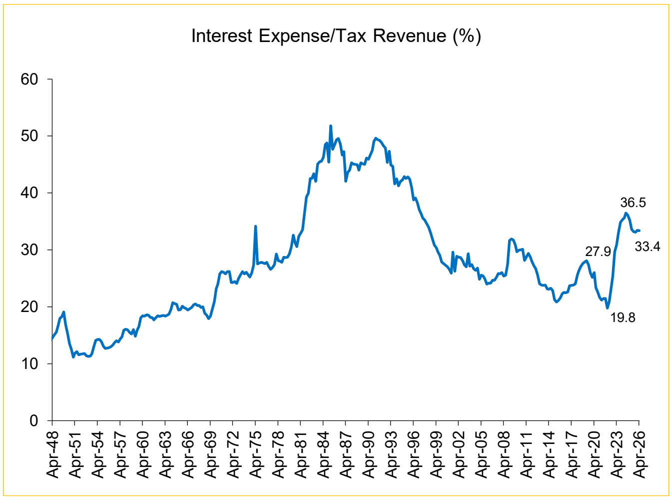
Source: FRED, BoJ, Choice Institutional Equities

Japan's investment in the US is dominated in non-manf sectors (Trade & Finance), with a recent rise in manf (Iron & Steel)



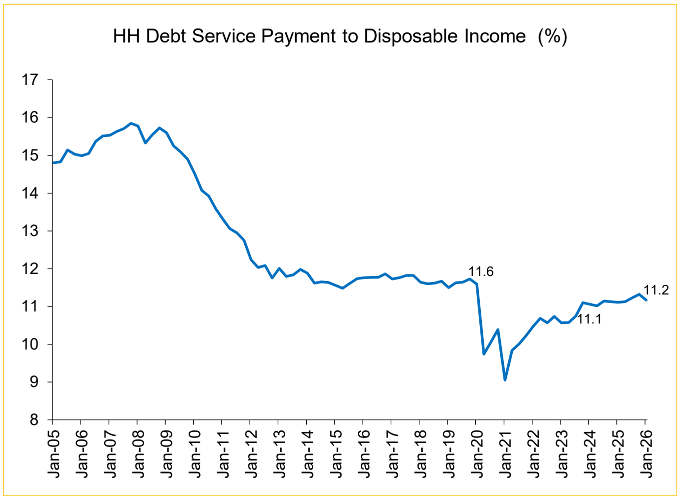
Source: NY FED, Choice Institutional Equities

Despite surge in customs collection, interest expense declined very modestly to 33.4% to total revenue collection from 36.5%



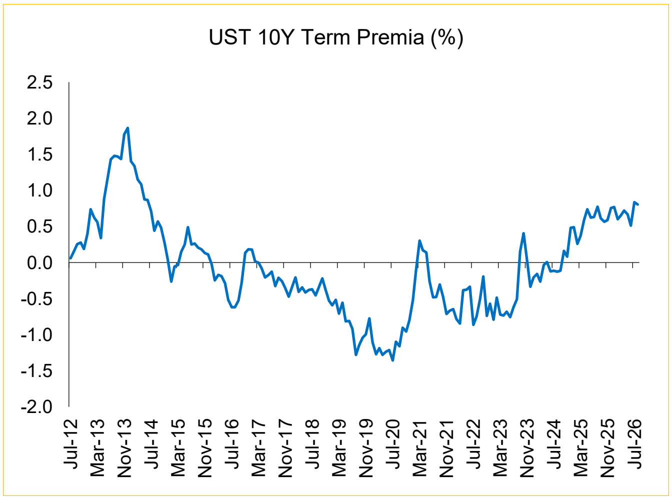
Source: FRED, Choice Institutional Equities

Debt Service Payment of households remains contained, but pocketed rise in delinquency stress may lead to upside risks



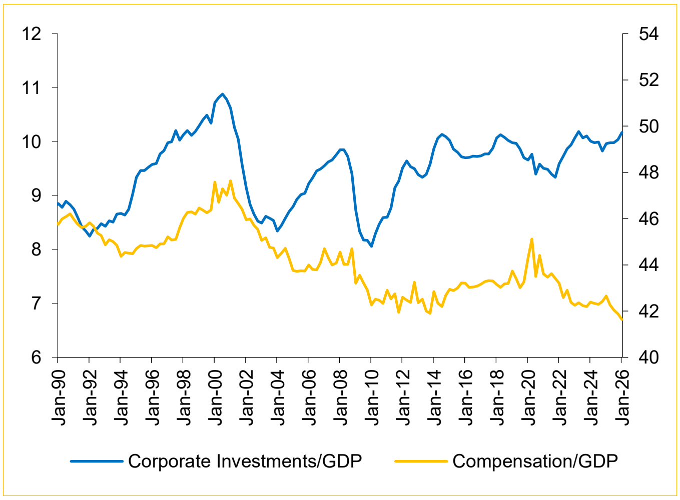
Source: FRED, Choice Institutional Equities

Persistently rising US term premium due to inflation worries, debt dynamics, and concerns around Fed independence



Source: FRED, Choice Institutional Equities

Corporate Investment (NFC) remains flat as % of GDP, but the compensation to employees continues to decline as % of GDP



Source: FRED, Choice Institutional Equities

Institutional Research Team			
Utsav Verma, CFA	Head of Institutional Research, India Equity Strategy and SMIDs	utsav.verma@choiceindia.com	+91 22 6707 9440
Purvi Mundhra	Economist	purvi.mundhra@choiceindia.com	+91 22 6707 9241
Ambrish Shah	Analyst - Power	ambrish.shah@choiceindia.com	+91 22 6707 9251
Ashutosh Murarka	Analyst – Building Materials	ashutosh.murarka@choiceindia.com	+91 22 6707 9521
Bhavik Shah, CFA	Analyst – Metals & Mining	bhavik.shah@choiceindia.com	+91 22 6707 9521
Deepika Murarka	Analyst – Healthcare	deepika.murarka@choiceindia.com	+91 22 6707 9513
Dhaval Popat	Analyst – Energy	dhaval.popat@choiceindia.com	+91 22 6707 9949
Fenil Brahmbhatt	Analyst – Realty & Building Materials	fenil.brahmbhatt@choiceindia.com	+91 22 6707 9930
Ishank Gupta	Analyst – NBFCs	ishank.gupta@choiceindia.com	+91 22 6707 9867
Karan Kamdar	Analyst – Consumer Discretionary, SMIDs	karan.kamdar@choiceindia.com	+91 22 6707 9451
Kunal Bajaj	Analyst – Technology	kunal.bajaj@choiceindia.com	+91 22 6707 9901
Maitri Sheth	Analyst – Pharmaceuticals	maitri.sheth@choiceindia.com	+91 22 6707 9511
Putta Ravi Kumar	Analyst – Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Preeyam Tolia	Analyst – FMCG & Retail	preeyam.tolia@choiceindia.com	+91 22 6707 9987
Vijiya Rao	Analyst – AMC & Insurance	vijiya.rao@choiceindia.com	+91 22 6707 9531
Avi Jhaveri	Sr. Associate – Technology	avi.jhaveri@choiceindia.com	+91 22 6707 9901
Bharat Kumar Kudikyala	Sr. Associate – Building Materials	bharat.kudikyala@choiceindia.com	+91 22 6707 9930
Samarth Goel	Sr. Associate– Small and Midcaps	samarth.goel@choiceindia.com	+91 22 6707 9451
Subhash Gate	Sr. Associate – Autos	subhash.gate@choiceindia.com	+91 22 6707 9233
Heer Gogri	Associate – Small and Midcaps	heer.gogri@choiceindia.com	+91 22 6707 9433
Heet Chheda	Associate – Autos	heet.chheda@choiceindia.com	+91 22 6707 9233
Prakhar Tibrewala	Associate – SMIDs	prakhar.tibrewala@choiceindia.com	+91 22 6707 9433
Rushil Katiyar	Associate – Technology	rushil.katiyar@choiceindia.com	+91 22 6707 9901
Shreya Mehra	Associate – Technology	shreya.mehra@choiceindia.com	+91 22 6707 9535
Stuti Bagadia	Associate – Pharmaceuticals	stuti.bagadia@choiceindia.com	+91 22 6707 9511
Vinay Rawal	Associate – Small and Midcaps	vinay.rawal@choiceindia.com	+91 22 6707 9433

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BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
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NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

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