

## The week in seven charts



### America's \$40tn debt mountain

Meanwhile, we compare US debt added under each president and explore the Swiss franc's emergence as a new funding currency for carry trades. Each week, the Syz investment team takes you through the last seven days in seven charts.

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### Chart #1

## Total US government hit \$40tn for the first time in history

US federal debt climbed to \$40.05tn on Monday, according to Treasury Department data, meaning the debt burden has more than doubled over the past nine years. In July alone, the federal budget recorded a \$432.3bn shortfall, the largest monthly deficit seen in over five years. In comparison, the national debt stood at just \$19.4tn ten years ago. Washington continues to respond to mounting challenges with the same playbook: higher borrowing and greater spending, with little indication of meaningful fiscal restraint.

### US National Debt August 2017 – August 2026



Source: CGTN, US Treasury

### Chart #2

## US national debt added by presidential term

The US national debt crossed the \$1tn threshold for the first time in 1981. Since then, every administration has contributed to its continued rise. Changes in federal debt during each presidency reflect a combination of government expenditure, taxation decisions, economic slowdowns and extraordinary measures, including emergency legislation response to the COVID-19 pandemic. Historical tracking estimates suggest particularly large increases in recent years: around \$9.32tn during Barack Obama's presidency, \$7.80tn in Donald Trump's first term, approximately \$8.45tn under Joe Biden, and \$3.79tr so far during Trump's second term.

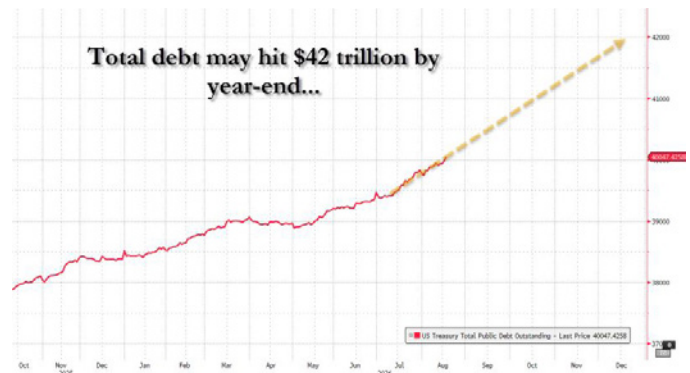


Source: Visual Capitalist

### Chart #3

## At least the trajectory is clear...

US debt should hit \$42tn by year-end, extending a relentless rise in federal borrowing.



Source: ZeroHedge

### Chart #4

## The US interest burden is among the highest in the developed world

The United States now has the second-highest gross interest expense relative to GDP among major developed economies, behind only Italy. In absolute terms, the country is spending approximately \$1.4tn per year on gross interest payments. That amount exceeds the entire GDP of more than 175 of the world's 195 countries.

Interest costs have also reached a record 20% of total US tax revenue. According to the CBO, this share is expected to increase to approximately 30% by 2036. At the same time, interest payments currently amount to around 3.5% of total US debt, still well below the more than 5% recorded during the Global Financial Crisis.

The underlying issue, therefore, is not exceptionally high interest rates but the sheer scale of the debt accumulated by the United States.

### US Interest Expense Is Eating Tax Dollars



Source: Bloomberg

## Chart #5

### Gold stages a strong rebound

Gold, precious metals, and cryptocurrencies were among the strongest performers last week.

The renewed momentum was driven by the return of the “debasement trade” narrative. Last Wednesday, the US Treasury announced that it would at least double the maximum size of its buyback operations in the 10-20 year and 20-30 year segments, increasing the amount from \$2bn to “at least” \$4bn. The move targets parts of the yield curve that have experienced a buyers’ strike since late June.

Bessent’s decision to use the Treasury’s buyback authority has been interpreted as delivering what the Federal Reserve has so far declined to provide: easier financial conditions at the long end of the curve without formal policy coordination. This is being viewed as an explicit form of fiscal dominance, which is typically supportive of assets associated with the “debasement trade”, including gold and bitcoin.

As the chart below illustrates, gold regained its 200-day moving average last week.



## Chart #6

### The Swiss franc is emerging as a new funding currency for carry trades

For many years, the Japanese yen has been the preferred funding currency for global carry trades. That role is now facing a challenge as volatility in Japan increases and the Bank of Japan gradually moves away from its ultra-loose monetary policy. The Swiss franc is increasingly being viewed as a potential alternative.

The rationale is relatively simple. Swiss interest rates remain near zero, making the franc one of the least expensive major currencies to borrow. Meanwhile, the Swiss National Bank continues to monitor excessive appreciation of the currency. From the perspective of investors, this may help limit the risk of a sudden and uncontrolled rise in the franc.

Positioning indicators show that traders are responding to this shift. Hedge funds have increased their net short

exposure to the Swiss franc to levels close to a two-month high, while speculative short positions in the Japanese yen have fallen for a second week in a row.

The difference in performance is already apparent. Over the past month, a carry trade financed in Swiss francs and invested in the Mexican peso would have produced a return of approximately 4%, versus about 1.3% when the same strategy was funded in Japanese yen.

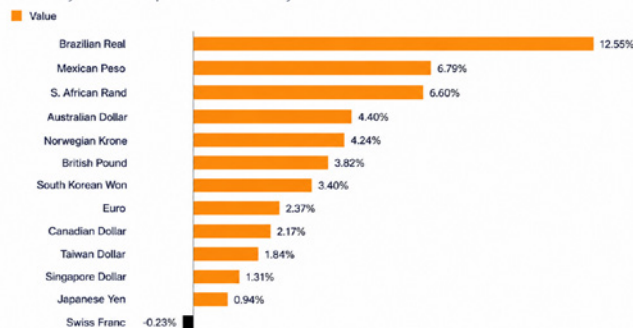
The yen is unlikely to surrender its position as the world’s leading funding currency in the near term. Nevertheless, the environment has become less favourable. Expectations for higher Japanese interest rates, along with the continuing possibility of currency intervention, have made yen-funded carry trades increasingly difficult to navigate.

Switzerland, meanwhile, offers a combination of exceptionally low borrowing costs and comparatively low interest-rate volatility. As a result, the Swiss franc is attracting renewed attention from traders. There is also a clear irony to this development: a currency traditionally viewed as one of the world’s strongest safe havens is increasingly being borrowed to support risk-taking in other markets.

The Swiss franc may continue to serve as a refuge during periods of market stress. In more stable conditions, however, it is increasingly being used as the financing fuel for the carry trade.

### Swiss Franc Borrowing Cost Is Cheapest in the World

Currency forward implied three-month yield



Source: Bloomberg

## Chart #7

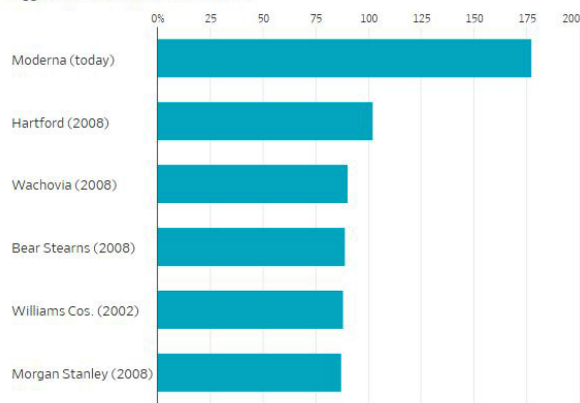
### Moderna stock jumps 177% in a single day

Merck and Moderna announced Wednesday that their experimental personalised cancer vaccine delivered encouraging initial results in its first late-stage clinical trial. The findings bring the companies closer to potentially seeking regulatory approval for the treatment.

Merck’s shares rose by more than 12% on Wednesday, while Moderna’s stock surged approximately 177%. The stark difference in the magnitude of the gains reflects the companies’ very different market capitalisations at the start of the day: Merck was valued at roughly \$333bn, compared with approximately \$25bn for Moderna.

Moderna's \$MRNA 177% one-day increase was the largest gain recorded by any S&P 500 stock this century.

Biggest One-Day Gains, S&P 500 Stocks



Hartford, Dec. 5; Wachovia, Sept. 30; Bear, Mar. 24; Williams, July 29; Morgan, Oct. 13  
Source: Dow Jones Market Data from Aug. 19, 2001

Source: Barchart

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## For further information

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