

Funding the Golden Age of America

The implications of the new Trump presidency for global financial markets in 2025 and beyond.



January 29, 2025

By [David Teeters](#)

In his inaugural address, U.S. President Trump proclaimed a bold vision for a new “golden age of America” built on a renewed industrial manufacturing base, productivity growth through a recommitment to innovation, and energy dominance and abundance. His first week in office

saw a flurry of executive orders to implement this new strategy.

This change in strategy responds to the clear and present need to reboot America's business model. The quick version: the "Washington Consensus" of the past half-century achieved globalization and global economic growth at the cost of the United States' previous economic model and manufacturing prowess. Direct results of this project included the great secular decline in interest rates and the concomitant leveraging of balance sheets across all sectors of the economy, leading to asset price inflation and exacerbated wealth inequality.

Essentially, Wall Street benefited from this era of financialization by selling American financial assets and products to the world, while the average Americans of Main Street lost out. Free trade, like free lunches, does not exist. Accepting lower potential growth may be a prudent trade-off for deliberate growth when facing fundamental changes to the global economy in coming years.

Trump's first week reflects a radical change from this (at best) partially implemented neoliberal vision of a world built on increasingly interconnected markets. But the U.S. isn't the only country breaking with the past: Significant parts of the world already pivoted from the collaborative doctrine of ever expanding markets to a worldview based on direct state competition. Unsurprisingly, this challenge to U.S. hegemony has been led by China, which under Xi Jinping first shifted toward a clear China First strategy built on state industrial policy. This has accelerated since 2018 as domestic lending was redirected from the real-estate sector to targeted industries in the name of increasing self-sufficiency. When the rules of the game are adhered to discretionally, the rules-based global order must adapt. In finance, when strategy changes, the corresponding funding paradigm needs to adjust to match the new vision.

What does this mean for financial markets? Here, I elaborate on the [twin challenges that I previously highlighted](#) would be faced by Treasury Secretary Scott Bessent.

Challenge 1: U.S. Treasury bond maturity profile and market liquidity

Over the past two years, the previous Treasury Secretary, Janet Yellen, increasingly refinanced U.S. Treasury bond issuance at the short end of the curve, in bill markets. Regardless of her motivation, there were three clear effects of this policy:

1. Loosening of financial conditions. The decision to issue bills (more "money-like"

securities instead of longer dated “coupon issuance”) increased financial market funding liquidity, which benefited the rise in all financial assets leading up to the presidential election. This provided a like-for-like “quasi-Quantitative Easing” liquidity offset for the Federal Reserve’s Quantitative Tightening (or shrinking of its balance sheet). However, given the peculiarities of the plumbing of our abundant reserve system, this was a one-off effect due to banks drawing down their reverse repo balances to invest in bills, and it has largely run its course.

2. Quasi “yield curve control.” By increasing the supply of bills above existing expected demand, the yield was higher (price lower, all else equal). The opposite is also true further out the curve: less issuance of duration (e.g., longer dated securities either at the 10-year maturity point or further out the curve) had the opposite effect of supply less than demand, which artificially suppressed the 10-year yield. This has gravely distorted a number of fundamental price signals from markets — from the slope of the yield curve to term premium and inflation breakevens.

3. Increased refinancing risk. Shorter maturity bills are subject to refinancing risk as they need to be continually rolled over. In debt markets, 2025 is a year of refinancing. The Treasury will need to refinance up to a third of outstanding Treasury issuance (potentially up to \$10 trillion, when all is said and done), on top of a maturity wall of corporate issuance (which had been termed out during the low interest rates of the pandemic).

Combined, this recalls what I have [previously discussed](#) as the problem of the Fed’s third unofficial mandate: the imperative to keep the treasury market functioning. Though there’s no firm line in the sand, recent episodes of market dysfunction have appeared when the U.S. Treasury 10-year yields reach approximately 5%. This is why U.S. Vice President J.D. Vance characterized the economic situation left by the Democrats as a “[dumpster fire](#).”

If Bessent normalizes funding by “terming out issuance” (issuing longer dated instruments instead of bills), the reverse process of these effects above will reduce liquidity in markets, at the margin adding downward pressure to financial asset prices. The stress on financial markets (already at stretched valuations) from this structural lack of liquidity is one of the major market risks for the first half of 2025. Indeed, valuations from equity markets continue to send signals at odds with other asset classes. Given the size of the structural adjustments needed, perhaps the market pricing of volatility is currently the most underpriced asset.

One of Yellen’s last official acts was to warn that the U.S. Treasury was starting to engage in extraordinary funding measures, this time drawing down from the Treasury General Account,

as the debt ceiling limit once again looms. The Treasury will unquestionably refinance outstanding issuance. The question is one of price, if the funding liquidity conditions in markets are not addressed, and at what point the Fed will be obliged to reverse its Quantitative Tightening (balance sheet reduction) and resume Quantitative Easing (liquidity injection).

Challenge 2: Total outstanding U.S. debt and interest expense

The second challenge Bessent faces is the overall level of debt on the United States' balance sheet. This is often measured by the debt-to-GDP ratio, though as Japan and others have demonstrated, this is less the real issue than the ability to service true interest expense (which depends on the interest rate as much as the quantity of debt). The share of U.S. receipts dedicated to interest expense now exceeds that spent on defense spending. Politically, the U.S. will not cut (at least in nominal terms) the commitments to welfare payments (Medicare, Social Security, etc.) or the defense budget. Yet although there has been hand-wringing about [the end of dollar dominance](#), with no real alternatives, the U.S. dollar, as the core of the global monetary system, is going nowhere. Something has got to give.

Prices are inherently relative: If something needs to decline in value, the question is against what? Much of the current concern about uncoordinated market-based solutions is on the necessary global rebalancing through exchange rates, focusing the conflict as between countries in what could lead to a renewed round of currency wars. However, with highly leveraged sovereign balance sheets a global phenomenon (as a product of the previous half-century decline in interest rates and financialization), one alternative is a coordinated reset of the global monetary system that deleverages the system by devaluing all currencies against a neutral reserve asset. Alternatives include either gold, which has served this function for millennia, or millennials' newfound preference for crypto: bitcoin. Both are likely to benefit in 2025. In the absence of American leadership in finding a global solution, an alternative scenario is potentially the return of bond vigilantes in markets that force a more disorderly move to a new equilibrium price, for both U.S. Treasuries and the U.S. dollar.

“Gold and bitcoin are likely to benefit in 2025”

The framing of this situation is critical: Finance serves strategy, and the U.S. strategy has changed. Current highly leveraged global balance sheets were a function of the previous worldview of ever more financialization and low interest rates. President Trump’s new America First agenda has an implicit inflationary bias and necessitates a new paradigm. Indeed, these twin challenges present an opportunity for President Trump to cement his legacy.

Last fall, I stated that all financial crises are fixed by resorting to a bigger balance sheet. America can sit down with its allies and adversaries in driving the creation of a new international monetary financial order befitting the realities of the 21st century: hearkening back to the Plaza and Louvre accords, perhaps the “Mar-a-Lago Accord.” What is needed are the price-insensitive buyers of U.S. Treasuries (whose purchases are driven by political rather than economic goals) to extend international balance sheets to demonstrate their buy-in and funding for a new rebalanced international monetary system. However, these global sovereign buyers have been absent (in terms of marginal purchases) from treasury markets for the last decade.

Market talk is of a hundred-year century bond, but why not return to the capital market origins of safe assets and issue a “Liberty perpetuity”? This removes refinance risk and makes explicit the instrument’s purpose as a safe asset and the prime collateral for a system oriented toward building the future. Furthermore, if these Liberty perpetuities are issued as off-market, nonnegotiable securities (with funding offered via the Fed), this strategically locks in the role of the U.S. dollar as the global reserve currency of the financial system, while alleviating the immediate challenges for the U.S. Treasury. The year 2025 is when macroeconomic considerations will continue to dominate financial markets. In other words, politics and national defense priorities remain firmly upstream and the main driver of financial outcomes.

From a negotiating perspective, tariffs create a large stick. But the right proverbial carrot may be even bigger — a new financial order to support a strategy based on life, liberty and the pursuit of happiness, which are the goals that make both America and the world truly

great. Perhaps other incentives could be even greater for America's near peer adversary, China. Fundamentally, leveraged investments in targeted domestic industries have produced world-class champions, but also overcapacity and sectoral balance sheets still in need of internal rebalancing against the threats of a balance sheet recession and debt deflation. With an export-led economy still constrained by a dollarized world trading system, a stronger dollar can motivate China in these conversations. For the good of the world, this can provide a more peaceful decoupling of economies and supply chains, and allow competition in the commercial rather than military realm.

As he returned to office, President Trump exhorted Americans to draw on their innate creativity to boldly create the future. This vision requires the support of a new financial strategy — and indeed a new international monetary order to replace one that is clearly strained to breaking point. Leadership toward a new “golden age” for America and, by extension, for global growth includes boldly addressing the inherent opportunity in these twin challenges in U.S. Treasury funding markets.



David Teeters

Senior Lecturer of Financial Management at IESE. His expertise spans macrofinance, corporate finance, and the history and evolution of financial markets.

www.iese.edu/insight