The week in seven charts

Chart #3
US federal debt increases by 275 billion in a single day
Read more on page 2

Image source: iStock/alexsl

The cost of US debt could soon reach 20% of tax revenue

Last week, US debt rose by $275 billion to an unprecedented $33.44 trillion, its cost could soon represent around 20% of tax revenues and US banks are under pressure. Each week, the Syz investment team takes you through the last seven days in seven charts.

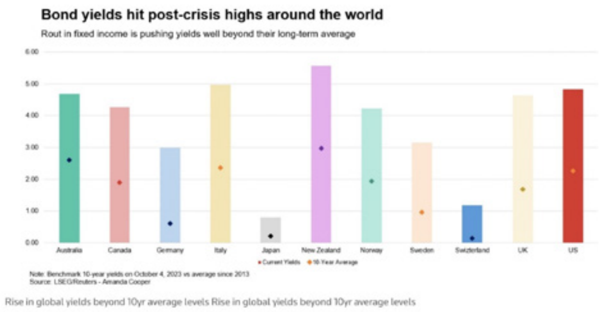
Charles-Henry Monchau
Chief Investment Officer

PRIVATE BANKING

Chart #1

Global rise in bond yields

The chart below sums up the global bond market rout. Bond yields have reached (post-2008) record highs around the world: in the United States, 10-year US yields are flirting with 5%; German bund yields have reached 3%. They are now 1.15% in Switzerland. This rise in the cost of money has many consequences, such as higher mortgage yields as well as higher corporate and government financing costs (see chart #3).

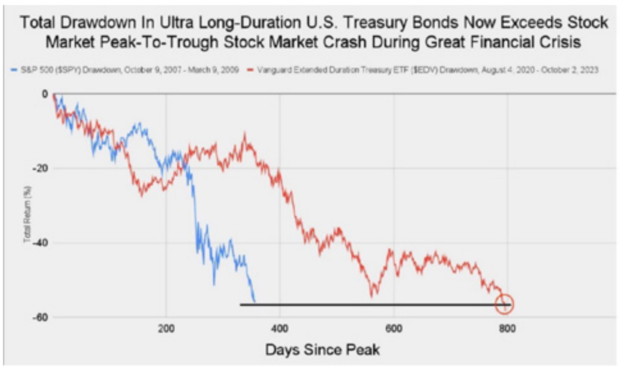


Source: HolgerZ

Chart #2

The unprecedented crash in very long-dated bonds

Incredible as it may seem, US Treasuries with very long durations (20 years and more) have now lost more, in terms of percentage decline, than US equities during the great financial crisis of 2007-2009. The decline (-58.3%) in the Vanguard Extended Duration Treasury ETF since its high (August 2020) now exceeds the losses (-56%) in the S&P 500 during the 2007 - 2009 stock market crash.

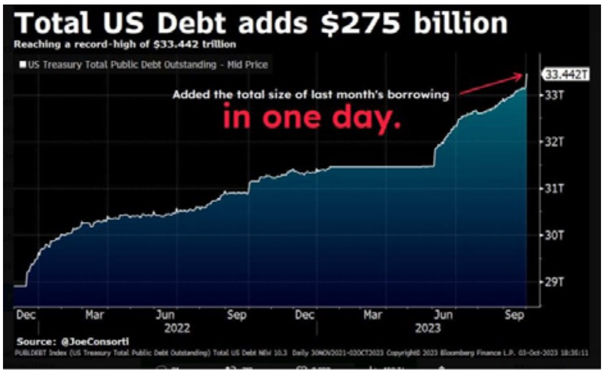


Source: Jack Farley

Chart #3

US federal debt increases by 275 billion in a single day

This is a new record. In a single day, US debt rose by $275 billion to an unprecedented $33.44 trillion. Two weeks earlier, US debt had passed the $33 trillion mark for the first time. This means that, on average, the US has accumulated $32 billion of debt every day over the last two weeks. If this pace continues, the US is on course to accumulate $1,000 billion in debt in the space of a month.

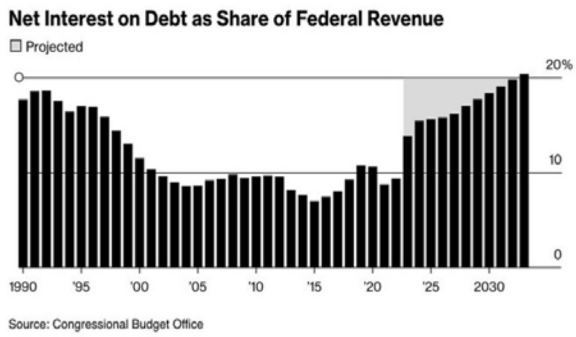


Source: Bloomberg

Chart #4

The cost of debt in the United States could soon represent around 20% of tax revenues

Washington is in turmoil after the US House of Representatives ousted Kevin McCarthy as Speaker, a first in the country's history. This political crisis comes at a time when the market is beginning to fear an imminent US debt crisis. Billionaire investor Ray Dalio is keeping a close eye on the risk associated with the US fiscal situation. "We're going to have a debt crisis in this country", he said earlier this week, adding to the volatility of US Treasury securities. Indeed, the cost of servicing the US debt is rising for the first time in 35 years. For almost 20 years, the cost of US debt fluctuated around 1.5%. Today, this cost has doubled to 3%. It will soon reach 5% as interest rates soar. To put that in perspective, 5% on $33 trillion is about $1.7 trillion a year in interest. As deficit spending rises, so do rates, as the US issues trillions in bonds to cover the budget deficit. It is partly this vicious circle that is driving up rates and leading to the situation where interest charges could soon represent 20% of US tax revenues.



Source: CBO, Bloomberg

Chart #5

US banks under pressure

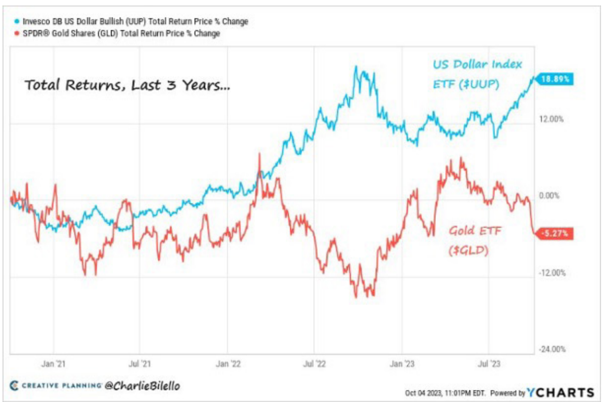
A Credit Default Swap (CDS) is a type of insurance under which financial institutions and investors protect themselves against the risk of defaulting on a loan by paying a premium. As the chart below shows, the premium paid on bonds issued by major US banks is rising steadily, a sign that the market is becoming increasingly nervous about the state of the US financial sector. Investment bank, Deutsche Bank, estimates that the rise in bond yields in Q3 could add $140 billion to banks' unrealised losses on the bonds they hold on their balance sheets. This means that the aggregate amount of these losses has reached a record $700 billion. Although the systemic risks to bank solvency are low, the fall in the value of these bonds held on their balance sheets could weigh on the capital adequacy ratios of financial institutions, potentially reducing their appetite for lending and slowing the flow of credit into the economy.

Source: www.zerohedge.com, Bloomberg

Chart #6

Unexpected trajectories

Who would have thought? Over the last three years, the US money supply (M2) has risen by 14%, US inflation (CPI) has risen by 18% and the federal debt has risen by 24%. The world has had to deal with a pandemic and a war on Europe's doorstep. Over this period, the dollar index gained 19% while gold depreciated by 5%... We might have expected the stock markets to behave in diametrically opposed fashion. But this is clearly not the case...

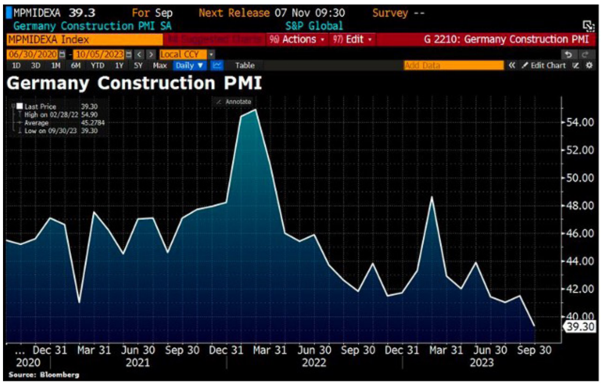


Source: Charlie Bilello

Chart #7

Construction crash in Germany

Under the impact of rising interest rates, the construction sector is literally collapsing in Germany. The German PMI construction index fell to 39.3 in September, from 41.5 in August (a value below 50 indicates a contraction in activity). This is the lowest level since statistics began.



Source: HolgerZ, Bloomberg

For further information

Banque Syz SA
Quai des Bergues 1
CH-1201 Geneva
Tel +41 58 799 10 00
syzgroup.com

Charles-Henry Monchau, Chief Investment Officer
charles-henry.monchau@syzgroup.com