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*Beyond the Headlines*

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# US Debt: Time Bomb or Evergreen Liquidity?

AMETRA RESEARCH · DEEP DIVE · JULY 2026

# US Debt: Time Bomb or Evergreen Liquidity?

**The United States now spends more servicing its debt than defending itself.**

Net interest crossed $1 trillion for the first time in 2025 and runs near $1.04 trillion in FY2026 - more than defense, more than Medicare. Total federal debt is about $39 trillion; debt held by the public is ~101% of GDP, the highest since World War II. And the price of money keeps climbing: the 30-year Treasury has hit ~5.2%, its highest since 2007.

Two stories are told about this.

- **Time bomb**: an interest spiral that ends in crisis.
- **Evergreen liquidity**: a reserve issuer can always roll debt it prints itself.

History says the truth is quieter, and more corrosive, than either.

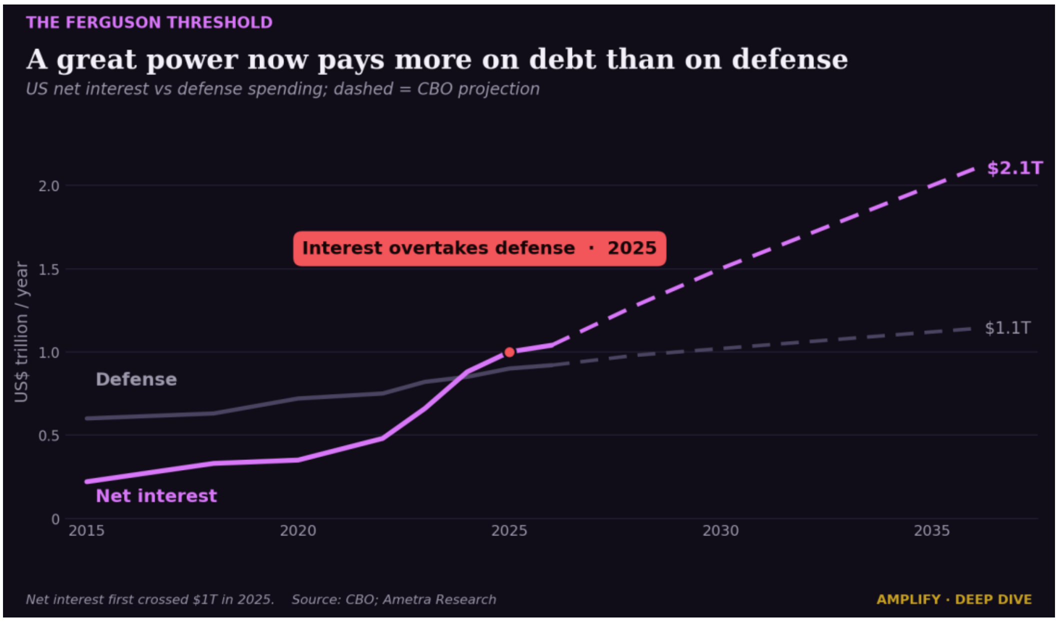
## Macro Snapshot (as of July 2026)

| Indicator | Reading | Read-through |
| --- | --- | --- |
| **US federal debt (total)** | ~$39 trillion | Debt held by public ~101% of GDP - highest since WWII |
| **Net interest, FY2026** | ~$1.04tn (~3.3% of GDP) | First crossed $1tn in 2025; now > defense and > Medicare |
| **Interest vs defense** | ~$150bn more than defense | The 'Ferguson threshold' - crossed in 2025 |
| **30-year Treasury yield** | ~5.2% | Highest since 2007; strategists warn 5.5% (2004 levels) |
| **US CPI** | 3.8% | Iran energy shock; higher-for-longer Fed (3.50–3.75%) |
| **Japan's UST holdings** | $1.24 trillion | Largest foreign holder, and now a net seller |
| **CBO interest projection** | $2.1tn (4.6% of GDP) by 2036 | Debt-to-GDP to 120% (2036), 175% (2056) |
| **Central-bank gold (2024)** | Record 1,000 tonnes+ bought | Gold now exceeds their US Treasury holdings |

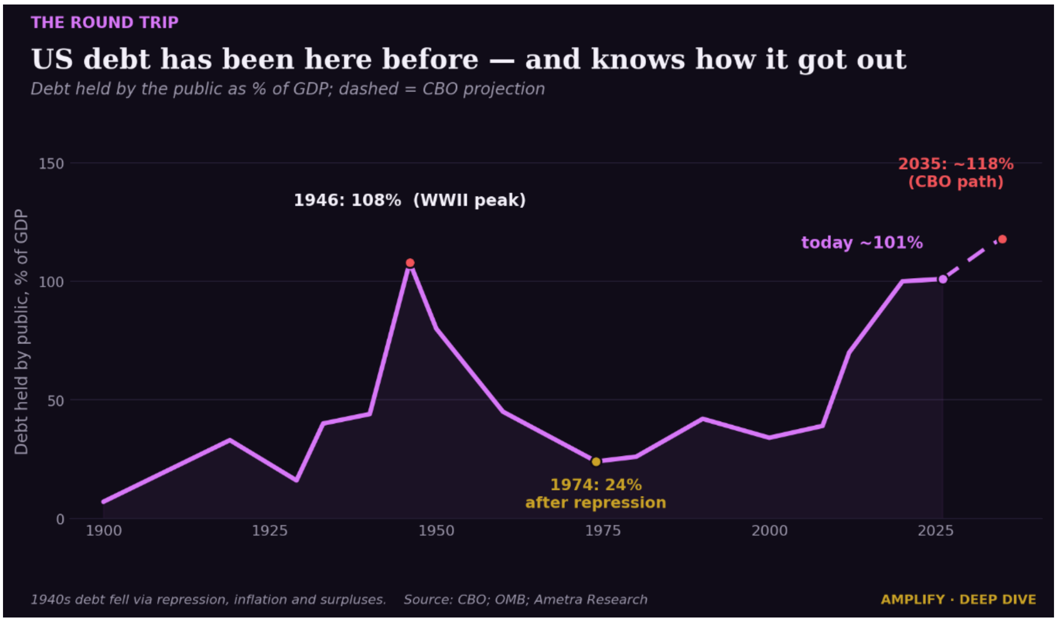
# 1. The Arithmetic of the Spiral

The danger is not the level of debt. It is the loop. Higher yields raise the interest bill; a bigger bill widens the deficit; a wider deficit means more issuance; more issuance lifts yields again. Interest is now the fastest-growing line in the budget, and as the chart shows, it has just overtaken defense.

**Niall Ferguson's rule of thumb:** a great power that spends more on debt interest than on defense rarely stays great for long - the Habsburgs, Bourbon France, the Ottomans and Britain all crossed that line before their decline. The US crossed it in 2025.




**Step back, and today's ~101% looks less like new territory than a return visit.** US public debt stood at 108% of GDP in 1946, and fell to 24% by the mid-1970s. How it fell is the whole question.



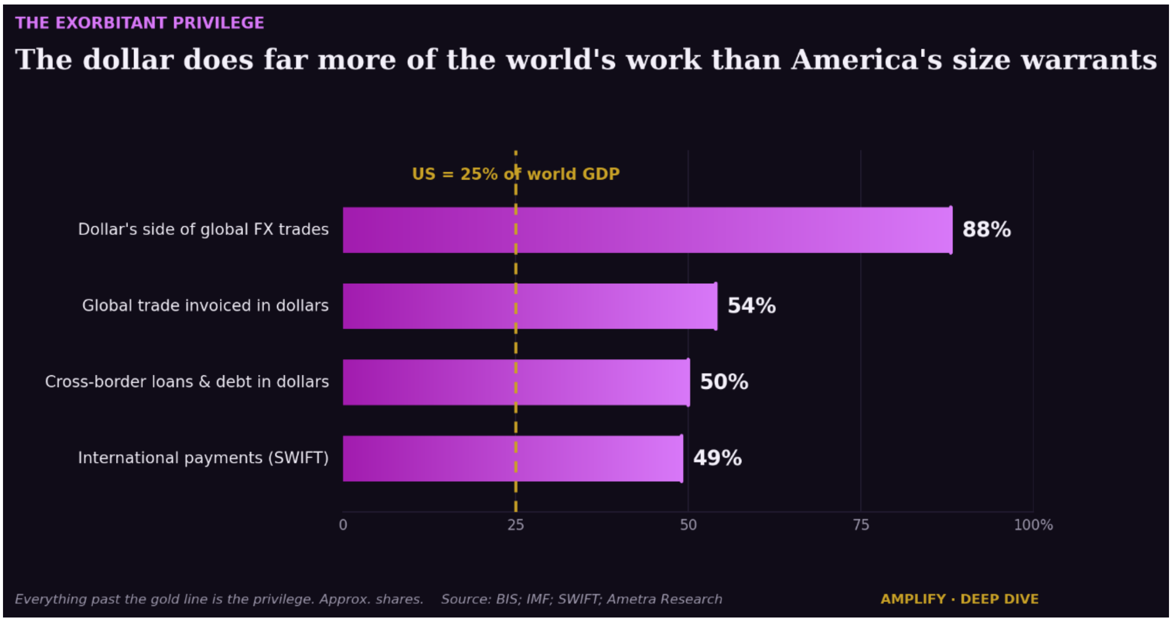
## 2. The Exorbitant Privilege — How the Debt Got Built

The debt is not an accident of profligacy alone. It is the flip side of reserve-currency status.

Because the world needs dollars to trade, to hold reserves, to price oil and to park savings in the one asset deemed risk-free, the US can do what no other borrower can - run persistent twin deficits and finance them cheaply, in a currency it prints itself.

**Sanjeev Sanyal**, a global strategist and economist, back in 2012 in his paper ***"Are We Entering a Post-Dollar World?"*** calls this the anchor-currency bargain: "the anchor country gets cheap financing, and the rest of the world gets the monetary liquidity needed to lubricate economic activity." It is symbiotic, and it is asymmetric. The rest of the world keeps holding the anchor's paper "not because nations cannot see the problem… but due to their willingness to pay a price for keeping the world economic system liquid."

That privilege is exactly what allowed US debt to compound for four decades without the currency crisis that would have punished any other nation. The reserve role is the enabler of the debt which is why the debt is now the world's collateral, and a US fiscal problem is everyone's problem.



## 3. The Graveyard of Anchor Currencies

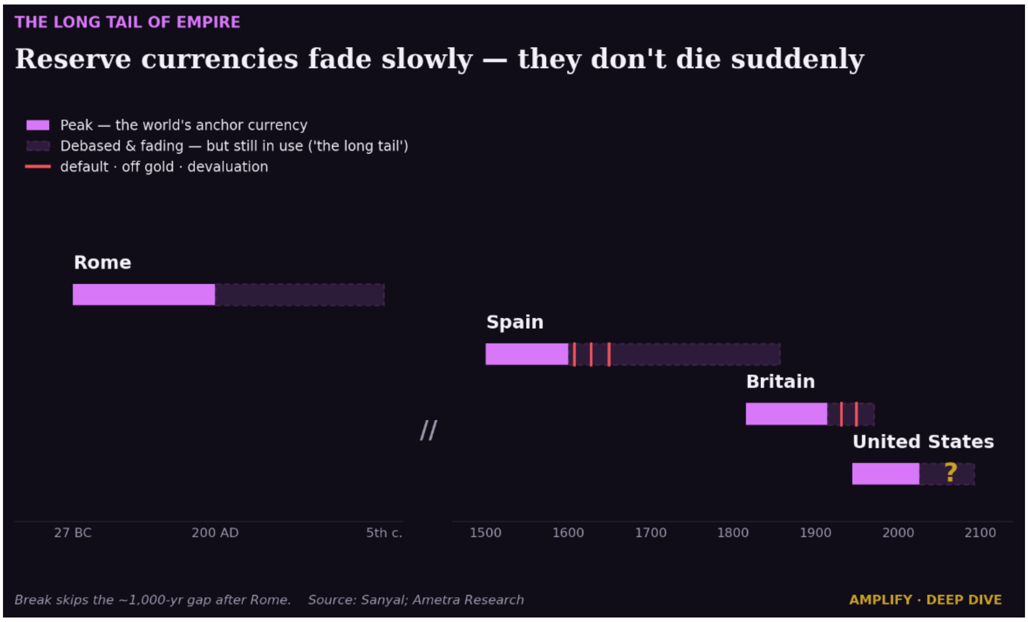
Sanyal's central point is that this is a very old story. Every dominant power has traded its credibility for cheap financing, and everyone has eventually paid through debasement, inflation and decline. But the currency's dominance outlives the empire by decades. That "long tail" is the evergreen-liquidity illusion.

**Rome:** A chronic trade deficit with India drained gold and silver; war-driven fiscal deficits did the rest. Rome's answer was to debase the coinage - the ancient equivalent of printing money. Between 138 and 301 AD the price of a military uniform rose 166-fold and wheat more than 200-fold. Tellingly, India kept accepting the debased coins at a steadily falling exchange rate. The currency survived; its value did not.

**Spain (16th century):** New World treasure - 17 million kg of silver and 181,000 kg of gold between 1501 and 1600, made Spain a superpower, then funded endless wars. Prices quadrupled in Spain over the century; its silver was pledged years in advance to Genoese bankers; it defaulted on its sovereign debt in 1607, 1627 and 1649 and fell into geopolitical decline, ruining its bankers. Yet the Spanish dollar remained the currency of world trade and stayed legal tender in the United States until 1857, long after Spanish power had gone.

**Britain (1940s):** Britain's gold-standard order had already broken when it abandoned the peg on 20 September 1931. World War II finished the job: Britain emerged with debt near 250% of GDP and sterling balances it owed across its empire. Bretton Woods (1944) formally enthroned the dollar; the 1949 devaluation cut sterling from $4.03 to $2.80 in a single step. The pound kept a reserve role for years afterward, but the crown had passed.

**The pattern is consistent:** the anchor never defaults in the way a small debtor does. It debases. Holders are slowly repaid in money worth less, while the currency keeps circulating on reputation long after the fundamentals have rotted.



## 4. The Endgame — Why This Time Rhymes

Three forces are now converging on the US bond market at once, and readers of our recent notes will recognise all of them.

**Yields are at a two-decade high** for fiscal, not cyclical, reasons. The 30-year at ~5.2% is being driven by 3.8% inflation from the Iran energy shock (our Crude Mirage thesis), a higher-for-longer Fed (our Fed note), and a buyers' strike, visible in weak long-bond auctions. When investors demand more yield to fund a government whose interest bill is spiralling, that is the market pricing fiscal risk, not growth.

**The largest foreign buyer is walking away**. **Japan** owns $1.24 trillion of US Treasuries, more than any other nation, and as we argued in The Yen Carry Trade, it has started to sell (a net $29.6bn in Q1 2026) as the BoJ hikes to 1.00% and JGB yields near 2.90%. When home bonds finally pay, the biggest price-insensitive foreign bid for Treasuries fades. The yen-carry unwind and the US debt problem are not two stories. They are the same fault line.

So, what is the endgame? Not the time bomb of a literal default. A sovereign that borrows in its own currency need never miss a payment; it can always print. And not the evergreen fantasy that debt is costless.

History points to the third road, the one every anchor has taken: **debasement and financial repression.** Inflate the nominal economy, hold real yields below the rate of inflation, and let time quietly shrink the real value of the debt, and of everyone who holds it.

The US has run this exact playbook before. From 1942 to 1951 the Fed capped Treasury yields (around 2.5% long, 0.375% short) - explicit **yield-curve control**, and combined with post-war inflation, this "financial repression" eroded a WWII debt of ~106% of GDP over the following two decades. That, not a Lehman-style rupture, is the template the market should fear now: a slow, deliberate transfer of wealth from bondholders and savers to the sovereign.

## 5. When the Anchor Debases, the World Pays the Tax

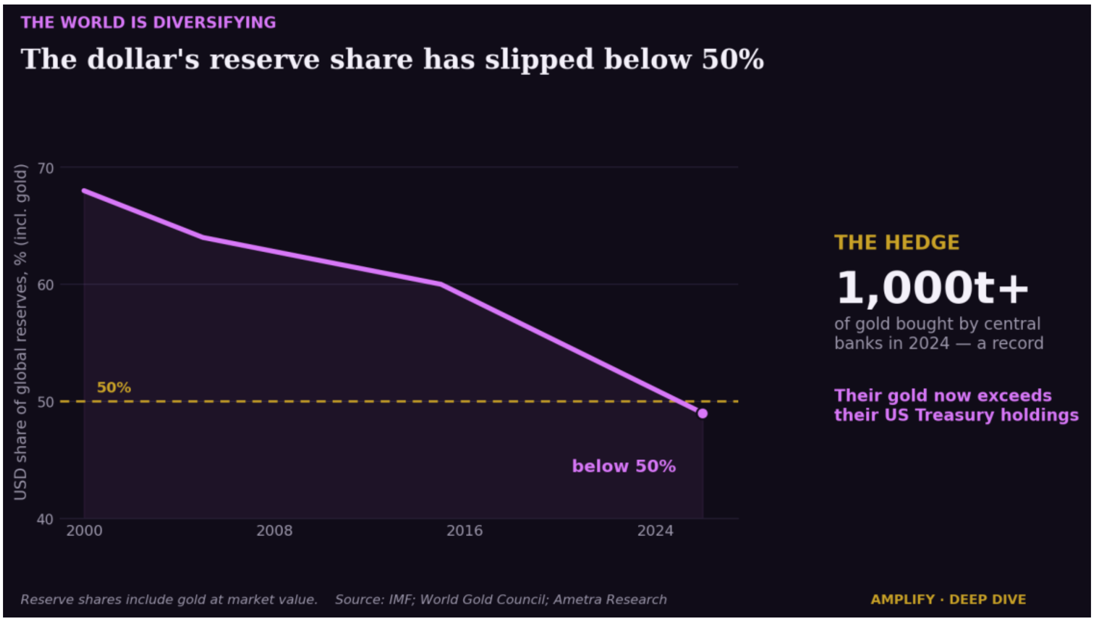
Debasement is never a domestic event. The reserve currency is the world's savings account, so its erosion is a tax collected globally - in three places.

**First, on the world's savers:** Financial repression is a levy on everyone holding the anchor's bonds - foreign central banks, pension funds, exporters, ordinary savers, who quietly earn negative real returns; Reinhart and Sbrancia put the transfer at 3–4% of GDP a year in the post-war decades.

**Second, through exported inflation:** a debasing anchor floods the system with liquidity that does not stay home, and with most trade and debt priced in dollars, a weaker dollar loosens global conditions first and exports inflation second.

**Third, and most dangerously, the interregnum:** The deepest risk is that nothing is ready to replace the dollar. The euro is fragmented, the yuan not convertible, gold too small. Kindleberger's verdict on the 1930s Depression was that it ran so deep because 'Britain could not, and the United States would not' lead. A world between anchors is leaderless, prone to trade blocs, currency wars, and a higher risk premium on everything.

The world is already hedging, as the chart shows; a slow diversification, not a sudden flight. For emerging markets that borrow and save in dollars, it means what our INR note described: more volatile flows, currencies caught in the crossfire.



## 6. Ametra's Read

**The honest answer to the title is neither, and both.** The dollar is not about to collapse. Its reserve role is genuinely sticky, and the long tail of history says it can circulate on reputation for a very long time. But the mechanism that resolves a debt this large has been the same for two thousand years, and it is already visible in a 5.2% long bond and a retreating Japan. The US may not default. But it may inflate. Position for repression, not for rupture.

Consistent with our recent notes:

— **Avoid long-duration US Treasuries.** Between the spiral (capital losses) and repression (negative real returns), the long bond loses either way. Favour high-quality, short-to-medium accrual, as in our Fed and Yen notes.

— **Gold as core insurance.** Every anchor-currency endgame in history, be it Rome, Spain, sterling, rewarded hard assets over the sovereign's paper. Gold is the cleanest hedge against debasement, and we hold it as insurance, not a trade.

— **Light on the crowded US mega-cap trade.** A structurally higher risk-free rate is exactly what reprices the priced-for-perfection AI names we flagged in AI ROI.

—**Mind the second-round effects on EM and India.** Higher US yields tighten global liquidity and pressure the rupee (the drag we described in our INR note), even as they strengthen the case for real assets.

**The exorbitant privilege is not being revoked. It is being paid for slowly, in the coin of a weaker dollar and negative real returns. The bomb is real; the fuse is inflation.**

## Sector Positioning Map

| Stance | Where | Why |
|---|---|---|
| Beneficiary — insurance | Gold / gold ETFs & miners | The classic hedge against debasement; central banks accumulating at record pace |
| Beneficiary — accrual | Short-to-medium high-grade debt | Carry without the duration hit from a Treasury sell-off |
| Beneficiary — real assets | Commodities, infrastructure, real estate | Hold value when the currency is debased |
| Caution — duration | Long-dated US Treasuries | Lose to the spiral (higher yields) or to repression (negative real returns) |
| Caution — priced for perfection | US mega-cap / AI leaders | A higher risk-free rate compresses long-duration equity |
| Caution — the dollar | USD cash as a long-term store | Slow real decline; near-term firmness is tactical, not structural |
| Watch — EM & India | Rupee, EM debt & equity | Tighter global liquidity and volatile flows (see INR note) |

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