US Treasury bonds

Investors pump $22bn into short-term US debt to ride out market 'storm'

Flood of inflows comes as money managers fret over Donald Trump's policies

A Bank of America survey this week showed investors made the 'biggest-ever' cut to their US equity allocations in March © Michael Nagle/Bloomberg

Harriet Clarfelt in New York

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Investors have poured $22bn into short-term US government debt this year after concerns over Donald Trump's economic and trade policies set off a race for haven assets and sent stocks tumbling.

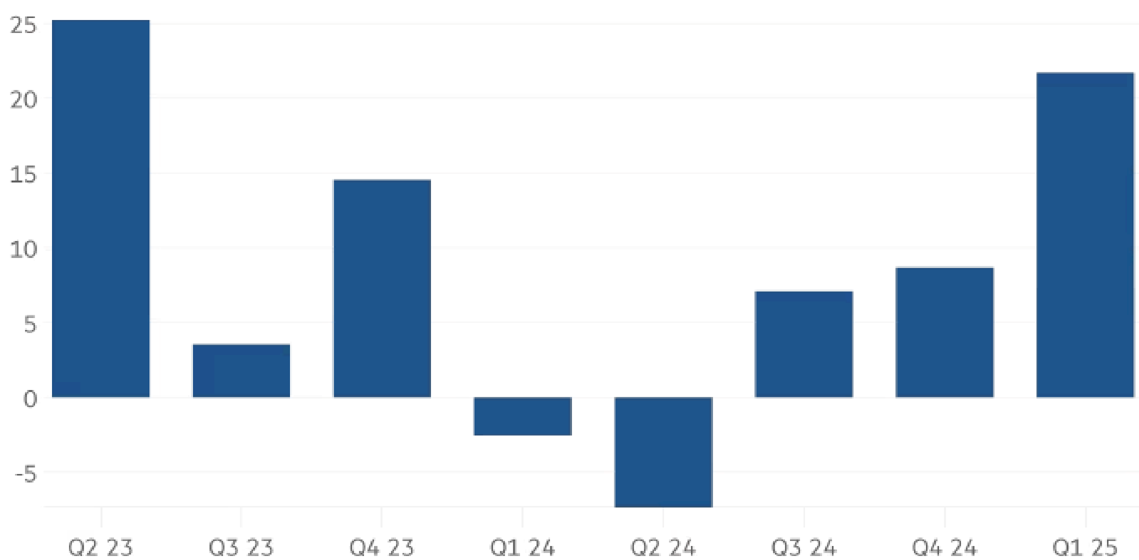
Net inflows into short-dated Treasury funds hit about $21.7bn between early January and March 14, according to EPFR data, setting the stage for the biggest quarterly flood into the vehicles in two years. Flows into long-term government bond funds were also positive for the quarter to date, but totalled a much smaller $2.6bn.

The cascade of money into shorter-dated government debt comes as investors have sought shelter from a sell-off in riskier assets, such as stocks and junk-rated corporate bonds, amid deepening worries that Trump's aggressive trade agenda will slow growth in the world's biggest economy and stoke higher inflation.

"There have been substantial flows, and it makes perfect sense to us because you've had a lot of volatility across those markets with embedded risk, like equities," said Bob Michele, head of global fixed income at JPMorgan Asset Management. "And now you look at the US bond market, and it can be the anchor in the storm."

Biggest inflows into US short-term Treasury funds since March 2023

Net inflows ($bn)



Q1 2025 shows quarter to date. Previous data points reflect full quarters.
Source: EPFR

A Bank of America survey this week showed investors made the "biggest-ever" cut to their US equity allocations in March, while junk bond spreads — the gap in borrowing costs between lowly-rated companies and the US government — have climbed sharply.

Mark Cabana, head of US rates strategy at BofA, said: "If you are increasingly worried about risk assets and maybe the possibility of an economic slowdown, or certainly some growth concerns that are brewing, then it probably makes sense to think about de-risking out of riskier alternatives."

Analysts also noted attractive yields had polished the appeal of short-term debt. One-month Treasuries, for example, provide a 4.3 per cent annualised yield, while two-year notes offer 4 per cent.

Investors and strategists also noted that if the US economy were to show further signs of slowing down, and the Federal Reserve were to cut interest rates, Treasury yields would follow suit — bringing price appreciation to bondholders.

The bet on short-term US debt will be tested later on Wednesday, when the Fed issues its latest economic and interest rate projections. Markets are expecting two to three cuts in the central bank's policy rate this year, and any deviations from that outlook are likely to ripple through fixed income markets.

Analysts noted uncertainty over the trajectory of the US economy was also a factor in pushing investors towards shorter-term debt.

With "pure de-risking" and "[if] you think the equity market's going to go through a correction, money just tends to go to cash and cash-like instruments", said Michele of JPMorgan.

"For sure, money market fund assets have gone up," he added, pointing to vehicles that hold ultra-short dated Treasury bills and cash equivalents — but "so have short-duration bond fund assets".

Andy Brenner, head of international fixed income at NatAlliance Securities, added "the only reason you'd want to go out in the long end of the [Treasury] curve right now is that you believe the US economy is slowing and you'll get a bigger bang for your buck in the long end".

Cabana concurred that for those who were "worried about growth risks and think rates will be falling, it makes sense to extend out the curve".

However, he added, "if you lack that conviction, and you're just seeking some safety, then front-end funds are liquid, safe and probably the easiest to get in and out of".

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