

Treasuries 2026 Outlook

Feel the path of every day, which road you taking?

- We forecast just 50bp more in Fed easing, versus the 90bp priced in OIS forwards. If the Fed delivers fewer cuts than markets expect, Treasury yields should rise somewhat, but with our final expected ease nearly five months away, we do not recommend positioning for higher yields at this time
- The intermediate sector is driven by medium-term Fed policy expectations. We find value in selling the 5-year sector along the curve to position for a shallower easing cycle with a relative value overlay
- We project yields will remain range-bound over the next few months, then rebound moderately once the Fed goes on hold in the spring. We forecast 2-year yields will remain around current levels through mid-year, while we expect 10-year yields to retrace to 4.25% in 2Q26 and 4.35% by 4Q26
- Recession risks would present material bullish steepening risks, while a Supreme Court ruling against IEEPA or Governor Cook could drive term premium higher and curves steeper
- The current coupon auction calendar leaves Treasury fairly well positioned for FY26, but larger gaps open up past FY27. We expect Treasury to embark on a multi-quarter series of increases beginning in November 2026, concentrated in the front end through intermediate sectors of the curve
- We forecast \$2.246tn in net-privately held borrowing in 2026, with \$770bn coming in T-bills. However, we forecast the Fed will purchase \$280bn T-bills in the secondary market
- We project the WAM of Treasury's debt will fall to 67 months by YE28
- Demand has shifted post-pandemic, with more price-sensitive investors comprising half of the Treasury market ownership for the first time since 1997. This share should stabilize in 2026 as the supply/demand balance improves
- With QT set to conclude, the Fed will begin to reinvest MBS paydowns into T-bills. Coupled with reserve management purchases to maintain a stable level of ample reserves, we project the largest annual SOMA demand since 2021
- We forecast strong demand from banks and steady demand from mutual funds/ETFs, while LDI demand will likely be more muted next year. Meanwhile, official foreign portfolios should continue to shift incrementally toward T-bills, while foreign private demand slows
- Treasury market liquidity has improved in 2025, though the front-end has lagged the recovery due to elevated policy uncertainty. Liquidity should improve further in 2026 as the distribution of Fed outcomes compresses
- Recent SLR reform is expected to have only marginal near-term impact on liquidity. Other regulatory proposals, such as Basel III endgame and G-SIB reform, could materially impact market function, but we do not see the conversation picking up until 2H26

Fixed Income Strategy

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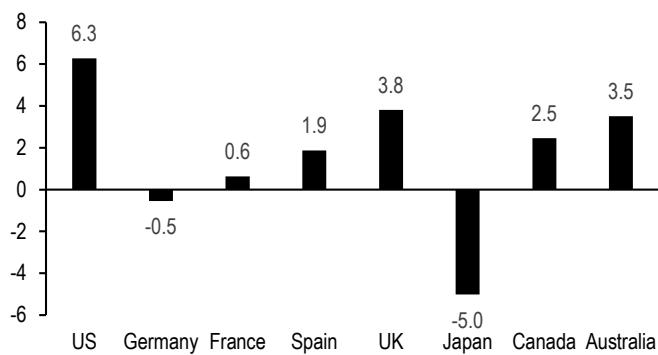
See page 21 for analyst certification and important disclosures.

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Treasury yields have traded in a wide 100bp range in 2025 amid a few distinct themes. Rising growth expectations, alongside renewed concerns about fiscal expansion and rising term premium, drove long-term yields close to their tightening cycle peaks in January. This episode was brief, as weakening sentiment data in late-winter tilted the narrative back to recessionary fears, and markets priced in more aggressive Fed easing. However, President Trump's tariff announcement on April 2nd shifted the focus to stagflation, which would limit how much the Fed can ease. Alongside signs of weakening demand for longer-duration risk-free assets in the US, UK, and Japan, the curve bearishly steepened into mid-2025. Ultimately, growth firmed through mid-summer, but slowing payroll growth alongside a rising unemployment rate pushed the Fed back into risk management mode, and the Treasury curve bullishly steepened as markets priced Fed policy moving back to neutral. YTD, 2-, 5-, 10-, and 30-year yields have declined 74bp, 76bp, 51bp, and 7bp, respectively, leading to a 6.3% return, on track for the strongest performance since 2020 (**Figure 1**). Meanwhile, the steepening dynamic has not been limited to the US, and government bond curves have twisted steeper this year (**Figure 2**).

Figure 1: Treasuries have outperformed other DM government bond markets YTD, on track for the highest total return since 2020...

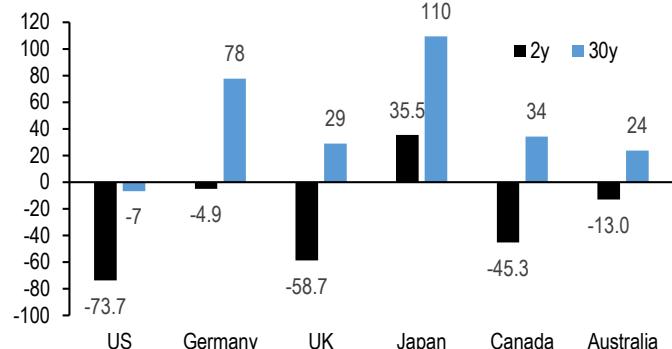
J.P. Morgan GBI YTD total returns*; %



* as of 11/21/25
 Source: J.P. Morgan

Figure 2: ...but like other bond markets globally, the long end has lagged, with yields relatively unchanged

YTD changes in various DM 2- and 30-year government bond yields; bp



Source: J.P. Morgan

We can attribute the moves in Treasury yields using our fair value framework to determine whether they align with shifts in fundamentals (**Figure 3**). Fed policy expectations have been the dominant driver: 1y1y OIS rates have declined 97bp, lowering the fair value of 10-year yields by 59bp. Medium-term inflation expectations have also declined by 19bp, lowering the fair value by an additional 3bp. Conversely, the Fed's balance normalization has raised the fair value of 10-year yields by 16bp. Finally, the policy uncertainty introduced by the Trump administration's novel approach to trade, reflected in the April 2nd "Liberation Day" announcement, added an incremental 5bp YTD. In sum, these factors predicted a 39bp decline, while yields have declined 51bp YTD. However, we think valuations can explain some of this gap: 10-year yields were trading 14bp above their model-implied fair value at YE24, amid term premium and fiscal concerns, but are now trading about 10bp too low on this basis.

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Figure 3: The decline in 10-year yields has largely been driven by easier Fed expectations, as well as a mean reversion versus our fair-value framework

Attribution analysis of 10-year Treasury yield changes 12/31/24-11/21/25*

Variable	Current value	YTD Chg	Coeff.	Expected chg; bp
Intercept			4.74	
1y1y OIS rate; %	3.00	-0.97	0.605	-59
JPM US FRI; % pts	92.0	-0.6	-0.01	0
5y5y TIPS breakevens; %	1.98	-0.19	0.155	-3
Fed B/S as share of US economy	21.6	-1.7	-0.095	16
Tariff dummy variable	1.0	1.0	0.054	5
Expected change from all factors; bp				-39
Actual chg; bp				-51
Residual on 31-Dec-24				14
Residual on 21-Nov-25				-10

* Regression from 12/31/19-11/21/25, R-squared = 98.4%, SE = 16.9bp

** Tariff dummy equals 1 after 4/2/25

Source: US Treasury, Federal Reserve Bank of New York, J.P. Morgan

As we turn the page to 2026, the slow loosening in labor markets presents a concern for the economy, and we expect weaker demand for labor markets and hence weaker labor income over the next three to six months. However, we think there are policy supports that will allow the expansion to continue into 2026, and we forecast 1.8% real GDP growth next year, similar to the pace observed this year (see [2026 US Economic Outlook: Through a glass, darkly](#), Michael Feroli, 11/17/25). The adverse shock from the April tariff announcement is fading quickly, and the tax provisions of the OBBBA should support disposable income and also support some additional spending on equipment, R&D, and manufacturing facilities. Coupled with the Fed delivering 50bp in additional Fed cuts (in January and April) before going on hold, we think this should support the expansion continuing into its sixth year.

Fed easing cycles generally support lower yields, but our forecast projects just 50bp more in cuts, versus the 90bp priced in OIS forwards. To the extent that the Fed delivers fewer cuts than are currently being priced in, this should support Treasury yields rising somewhat from current levels, given the strong relationship between long-term yields and the market's medium-term Fed policy expectations (**Figure 4**). Should these “insurance cuts” sustain the expansion, this easing cycle will more closely resemble other mid-cycle adjustments like 1995-1996, 2019, and 2024. **Figure 5** shows how 10-year yields behaved in the months around the end of the 1995-1996, 2019, and 2024 easing cycles. The magnitudes vary greatly, because each cycle has its own defining characteristics. 1995-1996 was a recalibration after the rapid 1994 tightening cycle, 2019 addressed weakening growth following the trade war, and also to anchor inflation expectations, while 2024 reduced policy restriction amid signs labor demand was slowing sharply. We find that yields declined 20-100+bp in the months prior to the end of these shallow cycles, with yields bottoming 1-2 months before the final cut.
Accordingly, with our final expected ease nearly five months away, we do not recommend positioning for higher yields at this time.

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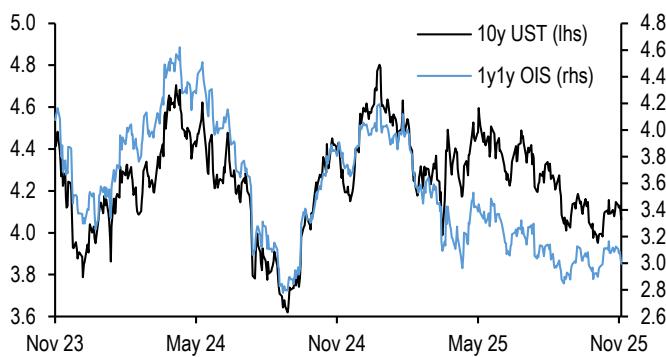
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Figure 4: Long-term yields have room to rise modestly should the Fed deliver 50bp more of cuts...

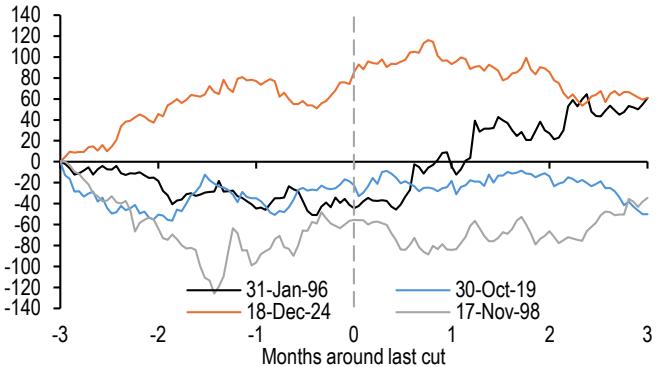
10-year Treasury yields (lhs) versus 1y1y OIS rates (rhs); % on both axes



Source: J.P. Morgan

Figure 5: ...but this move typically doesn't occur until a few months before the final cut in a mid-cycle adjustment

Cumulative change in 10-year Treasury yields from 3 months before the last cut in a shallow easing cycle* to 3 months after



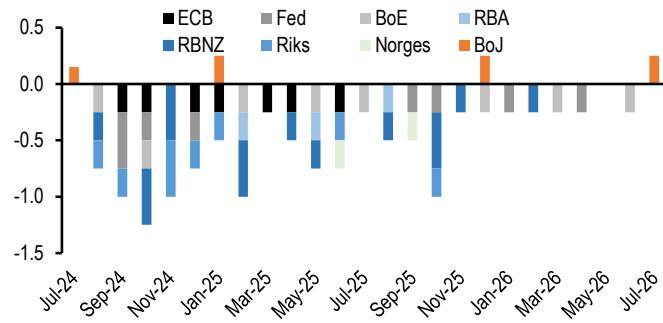
*Dates used: 1/31/96, 11/17/98, 10/30/19, 12/18/24

Source: J.P. Morgan

More broadly, the global policy environment is less supportive of a further decline in current yields, as most other central banks across the DM have either gone on hold or are expected to conclude easing cycles in 2026 (Figure 6). The pace of DM central bank easing peaked at 100bp per month in 2H24, but has since slowed and is expected to average less than 25bp per month through the middle of next year. **So, if the Fed delivers fewer cuts than markets are pricing in, we think there is scope for the intermediate sector to cheapen.** Over a longer horizon, the performance of the 5-year sector is driven by the market's medium-term Fed policy expectations: the 5-year sector tends to underperform along the curve as markets price in less easing over the next one to two years, and vice versa (Figure 7).

Figure 6: The pace of DM central bank easing is expected to slow drastically in 2026

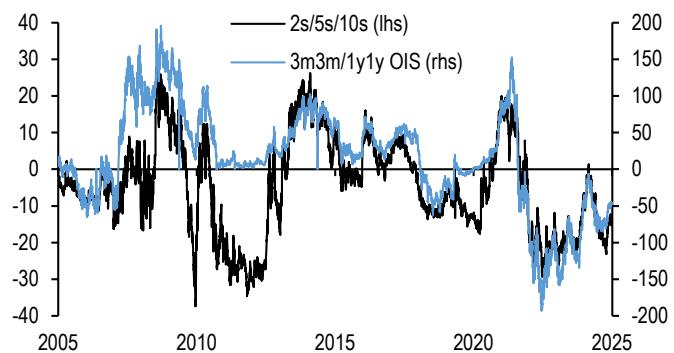
DM central bank policy rate changes by month, with forecasts through July 2026; %



Source: J.P. Morgan

Figure 7: The 5-year sector tends to cheapen as markets price in a less dovish Fed path...

2s/5s/10s Treasury butterfly (lhs) vs. 3m3m/1y1y OIS curve (rhs); bp on both axes



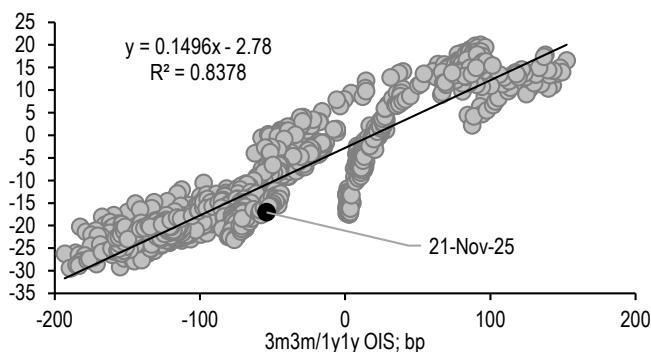
Source: J.P. Morgan

Furthermore, we think there is relative value in this: Figure 8 shows that the 3m3m/1y1y OIS curve explains about 84% of the variation in the 2s/5s/10s butterfly since the pandemic, with the 5-year sector looking about 6bp rich on this basis. **Accordingly, we recommend 50:50 weighted 2s/5s/10s belly-cheapening butterflies to position for a shallower Fed easing cycle than markets are currently pricing, with a relative value overlay (see Trading themes).**

Aside from the tactical moves expected around the end of this easing cycle, we think there's limited scope for yields to move higher, for a number of reasons. For the last 2+ years, we have argued that a large shift in the composition of demand for Treasuries toward more price-sensitive investors justified a rise in term premium and long-end yields staying anchored at higher levels. That long-end yields have only declined modestly YTD and sit about 35bp below their cycle highs despite 150bp of cumulative cuts is consistent with a rising term premium. Indeed, the widely-followed ACM model has risen by 150bp since mid-2023, and we observe a similar rise in measures of term premium derived from the Survey of Market Participants that the New York Fed conducts prior to each FOMC meeting, with data available back to 2013 (**Figure 9**). This leaves the ACM measure only modestly below the average levels observed in the decade prior to the GFC.

Figure 8: ...and looks about 6bp rich on this basis

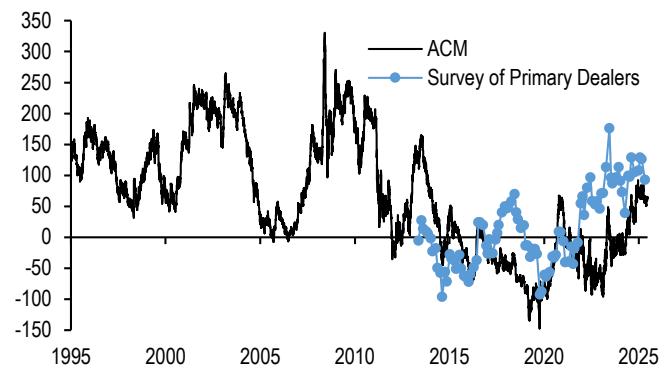
2s/5s/10s Treasury butterfly regressed on 3m3m/1y1y OIS curve (bp), regression over the last 5 years; bp



Source: J.P. Morgan

Figure 9: Term premium has risen sharply, though it remains somewhat below levels that persisted prior to the GFC...

ACM 10-year Treasury term premium compared with term premium estimated from Survey of Primary Dealers*; bp



* We average 10-year zero-coupon yield from Treasury par curve for the two weeks ahead of SPD submission dates and subtract the 10-year average expectation of the Federal funds rate
 Source: Federal Reserve Bank of New York, J.P. Morgan

We believe term premium has stabilized and fallen from its local highs for three reasons. **First**, the shift in demand has stabilized in 2025, and as we discuss below, we think the expected mix of Treasury buyers in 2026 supports this as well (see “Before you ask...it’s not QE: Treasury demand in 2026” below). **Second**, concerns over fiscal sustainability have receded: when we published our *2025 Outlook*, respondents to our year-ahead survey handicapped fiscal policy as the likely second most important factor driving US fixed income markets this year, following only monetary policy (see [U.S. Fixed Income Markets 2025 Outlook](#), 11/26/24). A year forward, and expectations have changed drastically: in our latest survey, concerns over debt sustainability are in the bottom 40% of expected drivers for US fixed income markets in 2026 (**Figure 10**). We think fiscal concerns have been reduced because market participants are comfortable that tariff revenue is running at a pace that should offset the loss of tax revenue expected from the OBBBA’s passage. Given this backdrop, we think Treasury can wait until November 2026 before increasing coupon auction sizes once again (see “More bills than thrills: 2026 Treasury supply outlook” below). **Third**, heightened sensitivity to reduced Fed independence contributed to rising term premium earlier this year, but those fears have been dampened somewhat: only 15% of the respondents in our survey expect the Supreme Court to rule in favor of President Trump’s decision to remove Governor Cook (**Figure 11**).

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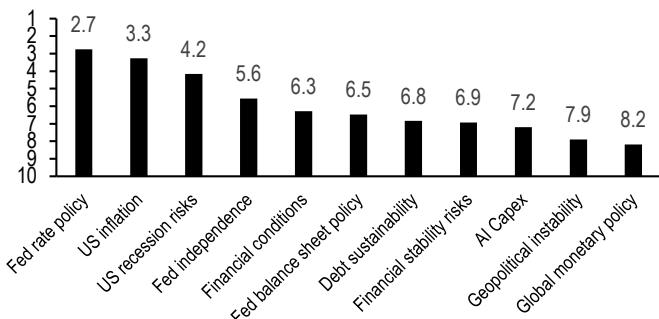
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Figure 10: ...as fiscal policy is not an urgent concern for investors over the coming year...

Distribution of responses to the question in J.P. Morgan US Fixed Income Markets Investor Survey: "How important of a driver of US fixed income markets do you think each of the following factors will be in 2026?" *

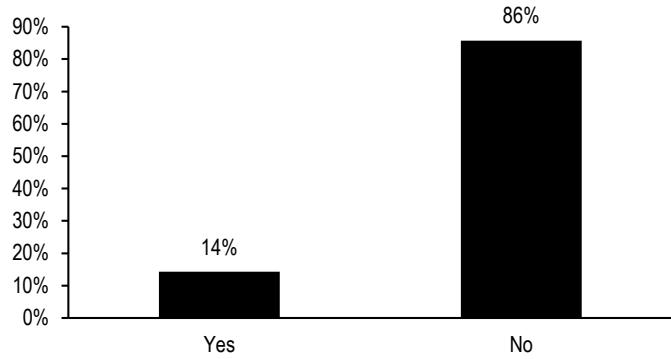


* 1 is most important and 10 is least. Each section refers to policy. Shown above is a weighted average of rank responses

Source: J.P. Morgan

Figure 11: ...and respondents to our survey are less concerned about reduced Fed independence

Distribution of responses to the question in J.P. Morgan US Fixed Income Markets Investor Survey: "Do you expect the Supreme Court to rule in favor of removing Fed Governor Cook in 2026?"



Source: J.P. Morgan

Accordingly, with the Fed forecast to deliver fewer rate cuts than currently priced and term premium unlikely to rise significantly from current levels, we think there is limited room for the curve to steepen, particularly as most curve pairs appear fairly priced in the context of medium-term Fed policy and inflation expectations, as well as the Fed's balance sheet and a factor for trade policy uncertainty.

In the context of the factors described above, we present our interest rate forecast in **Figure 12**. We project yields will remain range-bound over the coming months as the Fed continues to ease, albeit at a lower frequency than in recent months. We see limited scope for front-end yields to move lower, while we project long-end yields retrace modestly higher as the premium built into the intermediate sector fades. Longer-term, we look for a moderate rebound in yields once the Fed goes on hold in the spring. **We forecast 2-year yields will remain around current levels through mid-year, while we expect 10-year yields to retrace to 4.25% in 2Q26 and 4.35% by 4Q25.**

Figure 12: As growth returns to above trend and the Fed goes on hold, we expect Treasury yields to drift higher

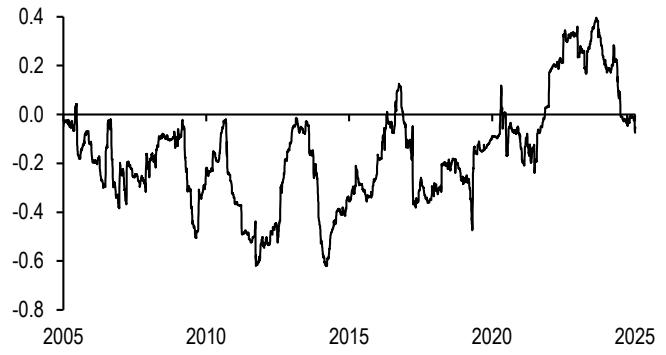
J.P. Morgan interest rate forecast; %

Maturity	Actual	4Q25	1Q26	2Q26	3Q26	4Q26
	21 Nov 25	31 Dec 25	31 Mar 26	30 Jun 26	30 Sep 26	31 Dec 26
EFFR	3.88	3.91	3.66	3.41	3.41	3.41
SOFR	3.91	4.00	3.70	3.45	3.45	3.45
2-yr	3.51	3.50	3.55	3.60	3.70	3.85
3-yr	3.50	3.50	3.55	3.60	3.70	3.85
5-yr	3.62	3.65	3.75	3.85	3.95	4.05
7-yr	3.81	3.90	3.90	4.00	4.05	4.15
10-yr	4.06	4.15	4.20	4.25	4.30	4.35
20-yr	4.68	4.75	4.80	4.85	4.90	4.95
30-yr	4.71	4.75	4.85	4.85	4.85	4.85

Source: J.P. Morgan

Figure 13: Equity/bond correlations have normalized, and we would expect to see strong demand for fixed income in a recession

Rolling 1-year correlation of weekly changes in S&P 500 (%) and 10-year Treasury prices (%)



Source: J.P. Morgan

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The risks to this modal view are two-sided. Leaning to the bearish side, should the Supreme Court strike down the IEEPA tariffs, this would likely rekindle fiscal concerns, exacerbating any move to higher yields. Nonetheless, our economists argue that revoking IEEPA tariffs would not have a material impact on where the level of the effective tariff rate settles, given alternative authorities available to the administration (see [Focus: What happens if IEEPA tariffs are revoked?](#), Nora Szentivanyi, 11/13/25). As a result, the move to higher yields would likely be more tempered than what was observed earlier this year. Similarly, a Supreme Court decision that allows President Trump to remove Governor Cook could have similar consequences, reducing the market's confidence in the Fed's commitment to its 2% inflation target, thereby resulting in increased inflation expectations and hence higher long-term yields and steeper curves, akin to what we observed in mid-summer.

Conversely, on the downside, our economists place a one-in-three chance on recession over the next year. The Fed would likely cut rates toward 2% in a recession, driving yields significantly lower from current levels. Moreover, we believe term premium might actually decline: a recession would deliver a wider budget deficit, but bonds have once again demonstrated portfolio diversification benefits this year. Correlations between Treasury yields and equities were positive for 2022-2024, covering most of the high inflation period, but have reverted back to their pre-pandemic trends as inflation moderated ([Figure 13](#)). If risk assets were to underperform in a recession, this would also drive stronger bond funds demand, driving yields lower.

Turning to the curve, we've favored steepeners for the last two years, but we see the curve outlook as more balanced. Should the Fed deliver 50bp of cuts before an extended hold, the curve will likely flatten, as medium-term Fed policy expectations remain the most significant driver of curve slope (see [US Treasury Market Daily](#), 6/10/25). This risk will increase in 1Q26 if labor markets begin to stabilize, as we forecast. Separately, term premium has increased substantially and is near pre-GFC averages, reflecting a shift in Treasury market ownership from the Fed and foreign investors to more price-sensitive investors. For term premium to rise significantly, the Supreme Court would need to rule against IEEPA or allow President Trump to fire Governor Cook. **Given these competing risks, we expect the curve to remain rangebound in the coming months, with risks of flattening as we extend deeper into 1Q26.**

More bills than thrills: 2026 Treasury supply outlook

The federal budget deficit narrowed modestly in FY25 to \$1.775tn, but given the changes to student loan programs in recent years, budget accounting conventions obscure the deterioration in government finances. Specifically, while estimated subsidies for student loans were increased in FY24, the OBBBA made sweeping changes to the programs, cutting federal spending and access to aid to reduce the deficit. This reduction in costs over the coming decade was accounted for upfront in FY25, but we estimate that after adjusting for this, the total deficit that needed to be financed grew to \$1.907tn ([Figure 14](#)). Looking ahead, we expect the deficit to widen to \$1.955tn in FY26, or 6.2% of GDP.

Importantly, our forecast assumes that tariff revenue will total roughly \$350bn next year, a touch below the annualized pace recorded in October. Risks to this estimate likely skew to the downside, given that the Supreme Court could rule to strike down IEEPA tariffs before year-end. If this happens, we expect the administration would impose 15% blanket tariffs (temporarily) under Section 122 via executive order, before opening new

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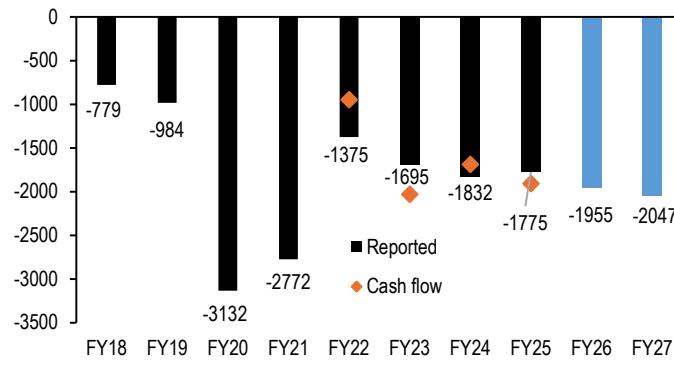
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investigations under Sections 301, 232, and others in order to make the tariffs more permanent. While this should prevent tariff revenue from falling materially, we estimate that over \$100bn of tariff revenue could be eligible for refunds (see [2026 US Economic Outlook](#), Michael Feroli, 11/17/25). We think it's unlikely that an administrative process would be set up to pay refunds, with reimbursement instead likely requiring the filing of lawsuits, which could be burdensome, and potential political ramifications could dissuade companies from this route. Thus, even if the Supreme Court rules to strike down the tariffs imposed under IEEPA, refund payments could be considerably lower than the total amount eligible for reimbursement (see [Tariffs on Trial](#), Amy Ho, 9/29/25).

Acknowledging this uncertainty, we estimate that the current coupon auction calendar leaves Treasury fairly well positioned for FY26, though larger gaps open up in FY2027 and beyond, primarily reflecting an increase in maturities. An earlier end to QT helps to narrow the gap in the current fiscal year, but the effect is marginal – the Fed's decision to end QT on December 1, four months earlier than we had assumed just a month ago, reduces net privately held net marketable borrowing needs by \$5bn per month. Looking ahead, we estimate a funding gap of \$5.5tn between FY26-FY30 (**Figure 15**). Thus, from a prudential debt management perspective, we think Treasury can only rely on T-bills for so long. At the November refunding, TBAC presented updated results from its Optimal Debt Issuance model and noted that while the increase in the T-bill share over recent years has reduced expected costs, it has also increased volatility. The presenter highlighted that while the current issuance mix seems appropriate in a "Productivity Boom" scenario, other scenarios could introduce additional risks for Treasury. In adverse macroeconomic scenarios, **the model suggests that shifting issuance away from T-bills and toward shorter-maturity coupons could further decrease volatility without substantially increasing costs** (see [US Treasury Market Daily](#), 11/5/25).

Figure 14: We expect the deficit to widen modestly in FY26 to \$1.955tn...

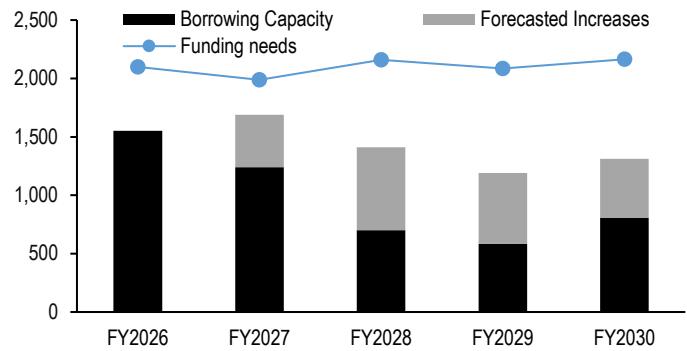
Annual budget balance by fiscal year, with CBO and J.P. Morgan projections for FY26-27; \$bn



Source: US Treasury, CBO, J.P. Morgan

Figure 15: ...but we see a sizeable funding gap emerging in FY27 and beyond, primarily driven by an increase in maturities

US Treasury net coupon borrowing capacity under unchanged auction schedule and under J.P. Morgan forecast* versus total funding needs; \$bn



* Assumes auction schedule as detailed in **Figure 17**
Source: US Treasury, J.P. Morgan

The model results support the notion that Treasury should not allow the T-bill share of outstanding debt to move materially higher from current levels. If Treasury leaned solely on T-bills in the coming years to address the widening funding gap, the T-bill share would rise to 28% by YE28 (**Figure 16**). Additionally, we think model conclusions are consistent with our expectation that once increases begin, Treasury will choose to concentrate coupon auction size increases in the front end through

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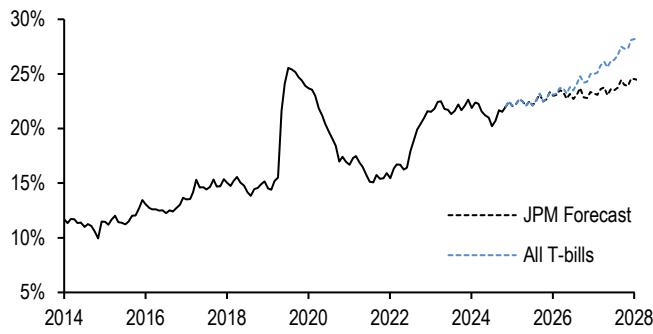
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intermediate sector of the curve while leaving 20- and 30-year auction sizes unchanged. Broadly, the model supports a gradual decline in the long-end share of Treasury issuance over time, and a structural weakening in demand for longer-duration assets points in the same direction (see [US Treasury Market Daily](#), 6/5/25). Importantly, despite the Trump administration's focus on bringing down long-term yields, it's worth recognizing that the Bessent Treasury's decisions this year represent a continuation of a more traditional debt management strategy. The most aggressive step taken to pressure long-term yields lower has been maintaining the forward guidance that it "anticipates maintaining nominal coupon and FRN auction sizes for at least the next several quarters."

At the November refunding, this forward guidance was updated to state, "Treasury has begun to preliminarily consider future increases to nominal coupon and FRN auction sizes," and pushed back on the notion that Treasury may cut coupon auction sizes in the coming quarters. More specifically, in the TBAC letter to Treasury, TBAC Chair Dunn and Vice Chair Mittal wrote, "The Committee believes that current projections could warrant increases in coupon issuance in FY2027." Thus, we expect that Treasury will embark on a multi-quarter series of increases beginning in November 2026, with increases concentrated in the front end through intermediate sectors of the curve while 20- and 30-year auction sizes are left unchanged (Figure 17). Lastly, Treasury chose to maintain the size of the January 10-year TIPS new issue at \$21bn, in contrast to the steady pace of \$1bn increases to new-issue 5- and 10-year TIPS auction sizes that have been delivered over the last two years. Accordingly, we project Treasury will maintain current TIPS auction sizes going forward and expect that it will need to revisit the TIPS share of the overall Treasury market at a future refunding. Notably, we estimate that the TIPS share of outstanding debt is likely to fall to 6.6% by the end of next year, below the bottom of the optimal 7-9% range that has been recommended by TBAC in the past.

Figure 16: If Treasury leaned solely on T-bills in the coming years to address this funding gap, the T-bill share would rise to 28% by YE28

T-bill share of marketable Treasury debt, with projections through YE28*, assuming J.P. Morgan issuance forecast** and assuming no coupon auction size increases



*Assumes most recently announced buyback schedule applies going forward

** Assumes auction schedule as detailed in Figure 17

Source: US Treasury, J.P. Morgan

Figure 17: We expect nominal coupon auction size increases to begin in November 2026

Projected gross issuance sizes for coupon Treasuries for 2026, reopenings shaded in grey; \$bn

	2s	3s	5s	7s	10s	20s	30s	5y TIPS	10y TIPS	30y TIPS	2y FRN	Total
Jan 26	69	58	70	44	39	13	22	0	21	0	30	366
Feb 26	69	58	70	44	42	16	25	0	0	9	28	361
Mar 26	69	58	70	44	39	13	22	0	19	0	28	362
Apr 26	69	58	70	44	39	13	22	26	0	0	30	371
May 26	69	58	70	44	42	16	25	0	19	0	28	371
Jun 26	69	58	70	44	39	13	22	24	0	0	28	367
Jul 26	69	58	70	44	39	13	22	0	21	0	30	366
Aug 26	69	58	70	44	42	16	25	0	0	8	28	360
Sep 26	69	58	70	44	39	13	22	0	19	0	28	362
Oct 26	69	58	70	44	39	13	22	26	0	0	30	371
Nov 26	71	59	72	45	44	16	25	0	19	0	29	380
Dec 26	73	60	74	46	41	13	22	24	0	0	29	382
Total	834	699	846	531	484	168	276	100	118	17	346	4419
2025	828	696	840	528	480	168	276	98	115	17	344	4390
Diff.	6	3	6	3	4	0	0	2	3	0	2	29

Source: US Treasury, J.P. Morgan

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Putting the pieces together, we forecast \$2.246tn in net-privately held borrowing in 2026, with \$770bn coming in T-bills (Figure 18), and we forecast WAM to fall only gradually to 69 months by the end of next year and 67 months by the end of 2028, versus 70 months currently (Figure 19). Meanwhile, the Fed is expected to absorb a significant share of next year's bill issuance. The Fed plans to reinvest all MBS paydowns into T-bills via secondary market purchases, and we expect reserve management purchases to begin in January (see "Before you ask...it's not QE" below). Thus, the privately held stock of T-bills is expected to grow by a more modest \$490bn. As the T-bill share of the SOMA portfolio climbs over coming years, the WAM of the SOMA portfolio is set to fall more sharply than the overall market. Still, we estimate it will take more than five years for the WAM of the Fed's Treasury holdings to reach a "neutral" level, leaving room for T-bills to support a larger share of issuance in coming years as well (Figure 20).

Figure 18: Net of Fed purchases, we forecast \$490bn of privately held bill issuance next year, while net coupon issuance falls to \$1.476tn

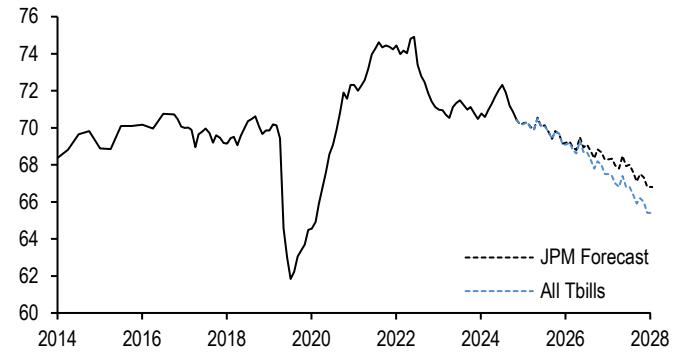
J.P. Morgan projection of net privately-held borrowing, Federal Reserve purchases of Treasuries, and expected change in Treasuries held by private investors; \$bn

Year	Net privately-held borrowing		Fed secondary market purchases		Net change in privately-held debt	
	Bills	Coupons	Bills	Coupons	Bills	Coupons
CY 2020	2,547	1,752	157	2,184	2,390	-432
CY 2021	-1,195	2,898	0	957	-1,195	1,942
CY 2022	-37	1,638	0	75	-37	1,563
CY 2023	2,051	1,107	0	0	2,051	1,107
CY 2024	540	1,909	0	0	540	1,909
CY 2025	374	1,905	15	0	359	1,905
CY 2026	770	1,476	280	0	490	1,476

Source: US Treasury, J.P. Morgan

Figure 19: We forecast the WAM of Treasury's debt will fall only gradually to 67 months by the end of 2028

Weighted average maturity (months) of marketable Treasury debt, with projections through YE28*, assuming J.P. Morgan issuance forecast** and assuming no coupon auction sizes increases



* Assumes most recently announced buyback schedule applies going forward

**Assumes auction schedule as detailed in Figure 17

Source: US Treasury, J.P. Morgan

Lastly, it's worth noting that we assume the buyback program remains at its current size, with up to \$38bn of liquidity support purchases per quarter and cash management buybacks of up to \$150bn per year. With a portion of these operations likely to go unfilled, buybacks are projected to add ~\$240bn of financing needs in the upcoming year. Should market liquidity deteriorate more than we expect, it's possible that Treasury could make modest tweaks to liquidity management operations over time, based on the evolution of the stylized buyback score introduced in August – specifically, offer-to-max ratios, yield dispersion around a fitted Treasury curve, and liquidity preference based on off-the-run/on-the-run valuation.

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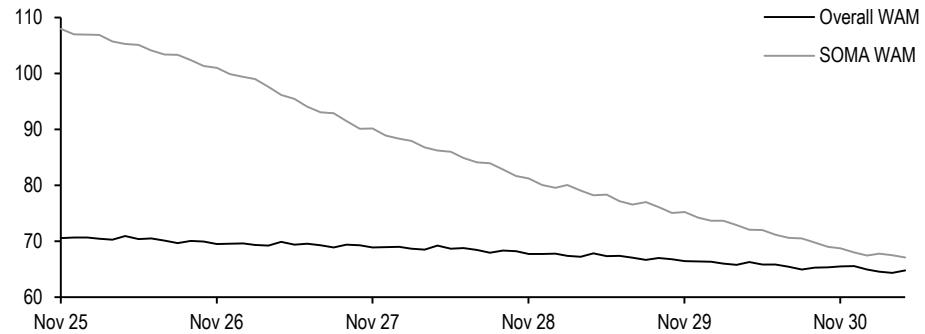
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Figure 20: Even if reserve management purchases begin in Jan 2026 and step up in Jan 2027, we estimate it will take more than five years for the WAM of the Fed's Treasury holdings to reach a "neutral" level

Projected WAM of outstanding marketable US Treasury debt, versus WAM of SOMA Treasury holdings*; %



* Assumes three rounds of coupon auction size increases beginning in November 2026; SOMA MBS paydowns run at \$15bn/month and are reinvested into T-bills beginning December 2025, and the SOMA begins reserve management purchases of T-bills at an \$8bn per month pace starting in January 2026 to keep up with currency growth and at an \$18bn per month pace beginning January 2027 to stabilize reserves as a share of nominal GDP.

Source: Federal Reserve Bank of New York, J.P. Morgan

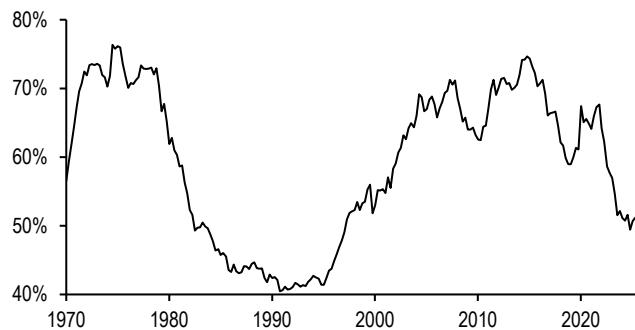
Before you ask...it's not QE: Treasury demand in 2026

Forecasting demand for Treasuries has been a core part of our year-ahead outlook process, and this topic has come into closer focus for market participants in recent years because the ownership of the Treasury market has undergone a seismic shift. The Fed, foreign investors, and US banks comprised on average a 66% share of the Treasury market for the first two decades of this century, but this share has plummeted in the post-COVID era, declining to 50% by late-2024 (**Figure 21**). The share of the Treasury market owned by these more price-insensitive investors has stabilized and risen modestly in 2025. With T-bills representing a larger share of Treasury net issuance in 2026, supply dynamics are broadly more positive next year. However, we do not project the composition of Treasury demand to aggressively shift back toward price-insensitive investors; accordingly, we do not expect term premium, which has retraced to more average levels observed over the last three decades, to decline in 2026. Over the coming pages, we will dive into the demand outlook for the largest constituents of Treasury demand, and how it matches up with expected issuance in 2026.

The Fed: QT is set to conclude in less than two weeks, putting the Fed in position to add to its Treasury holdings for the first time since 2021 (**Figure 22**). A year ago, the prospective composition of these purchases was up for debate, but we argued they should come via T-bills (see [Good enough for government work](#), 11/22/24), and this view has since been validated in the Fed's implementation note from the October FOMC meeting. We feel compelled to remind our readers that these purchases should not be construed as quantitative easing. During the QE era, the Fed purchased Treasuries and MBS in order to drive longer-term interest rates and term premia lower, and reserve balances naturally grew to accommodate a larger asset base. Meanwhile, these purchases will be made at the front end to prevent reserves from draining further.

Figure 21: The shift in Treasury market ownership away from more price-insensitive investors stabilized in 2025

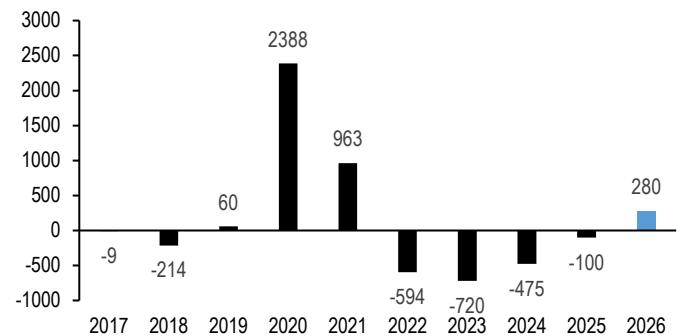
SOMA, US commercial bank, and foreign combined share of marketable Treasury debt outstanding: %



Source: Federal Reserve Z.1

Figure 22: We expect the Fed to add T-bills to reinvest MBS runoff and keep reserve balances stable in 2026

Annual change in SOMA holdings of US Treasuries*: \$bn



*2026 is J.P. Morgan forecast

Source: Federal Reserve, J.P. Morgan

We expect the Fed to add T-bills through two channels in 2026. First, given the objective to return to an all-Treasury balance sheet, the Fed will reinvest all MBS paydowns into T-bills: we assume paydowns remain steady at about \$15bn/month, translating to \$180bn of demand next year. Second, with the Fed committed to an ample reserve regime, it will need to buy Treasuries to offset the organic growth of other liabilities on the Fed's balance sheet, mainly the demand for physical currency, which would otherwise drain reserves. Demand for currency averaged just \$35bn per year over 2023 and 2024, but that pace has accelerated to \$54bn in the first 10 months of 2025, and we expect that pace to firm in 2026 as well. We assume \$100bn in currency demand in 2026, or approximately \$8bn/month, which the Fed will offset with a commensurate amount of T-bill purchases. Meanwhile, nearly 80% of the respondents in our annual outlook survey expect monthly purchases of \$10bn or more. **In aggregate, we forecast the Fed will purchase approximately \$280bn in Treasuries, all in T-bills, in 2026.**

Foreign Investors: In the wake of the Liberation Day announcement in April, investors were intensely focused on the US dollar's role as the reserve currency and whether "de-dollarization" would result in reduced foreign demand for US fixed income. We argued that the sharp rise in yields was driven by an overhang of long positions as market expectations shifted from recession to stagflation, and that there were no other clear alternatives to the scale and depth of the Treasury market (see *Treasuries, US Fixed Income Markets Weekly*, 4/11/25). Indeed, the TIC data indicate that foreign demand has accelerated in 2025: YTD through September, foreign net purchases of Treasuries totaled \$427bn, which, if sustained, would result in stronger foreign demand than observed in 2024 (**Figure 23**). Overall, following over a decade of decline, the foreign share of the Treasury market has stabilized near 30%, down from its peak of approximately 50% following the GFC. This stabilization is a welcome development. However, the composition of foreign demand has shifted, with foreign private ownership surpassing official ownership in mid-2023 and now representing close to 60% of foreign ownership of Treasuries (**Figure 24**). We tend to view reserve managers as more buy-and-hold investors than foreign private investors, and this shift in ownership has warranted the rise in term premium in the last two years (see *In the eye of the beholder*, 9/12/23).

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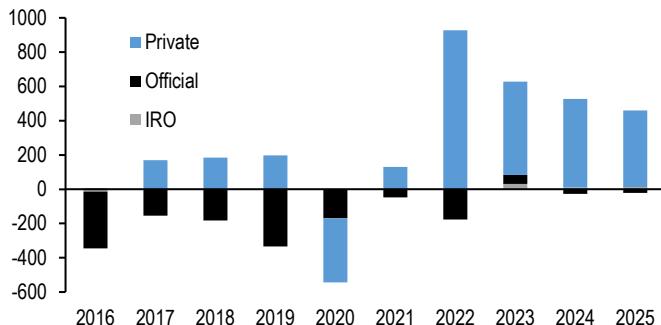
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Figure 23: The pace of foreign demand is on pace to firm in 2025...

Annual net purchases of Treasuries by foreign investors*; \$bn

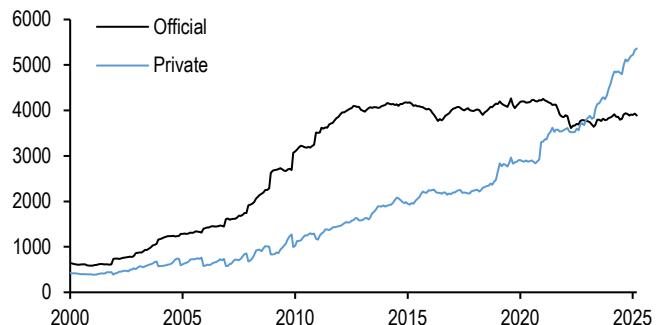


*2025 through September

Source: Treasury International Capital System

Figure 24: ...and with official demand stagnating in recent years, private investors comprise close to 60% of foreign ownership of Treasuries

Foreign official and private holdings of US Treasuries; \$bn

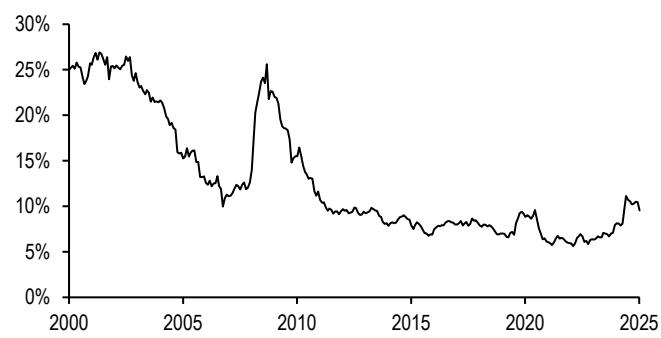


Source: Treasury International Capital System

While this dynamic is well known, we find official demand isn't just stagnating, but also shifting shorter in duration. The T-bill share of foreign official Treasury holdings has risen 1.5%-pts though September, following a 1.5%-pt rise in 2024, to the highest since 2011 (**Figure 25**). With front-end yields remaining anchored at higher levels than they have been over the last 15 years, it's natural for reserve managers to devote a larger share of their portfolio to T-bills, particularly now that bills represent a larger share of the Treasury market (see [US Treasury Market Daily](#), 4/30/25). However, it's also possible that another part of this shift to bills represents a proactive approach by official investors given the Trump administration's nontraditional approach to trade and the attendant increase in uncertainty. **Looking ahead, we expect FX reserves to grow moderately in 2026, and coupled with a benign environment for volatility as the Fed goes on hold, this should support a modest pickup in the pace of official demand, with more of this demand likely to be focused in T-bills.**

Figure 25: T-bills represent a larger share of official Treasury holdings than at any point since 2011

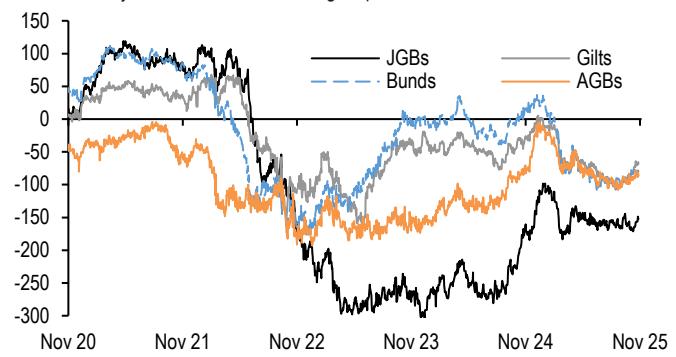
Foreign official investor T-bill share of Treasury holdings; %



Source: Treasury International Capital System

Figure 26: Treasuries remain unattractive for local-currency funded foreign investors

Yield pickup from selling 10-year JGBs, Gilts, Bunds, or AGBs and buying 10-year Treasuries, adjusted for 3-month FX hedge; bp



Source: J.P. Morgan

Private investors have more than filled this gap, but we expect their pace of demand to slow in 2026. Our work has shown that two factors drive foreign private demand for Treasuries—potential capital gains and carry (see [Things ain't like they used to be](#), 10/22/18). On the former, we project Treasury yields will move modestly higher in

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2026, with intermediates underperforming, which slow demand. On the latter, Treasuries are relatively unattractive for foreign-currency funded investors, indicating carry is unlikely to be a strong driver of private demand over the coming year (**Figure 26**). The carry profile has improved for USD-funded investors, but with the curve slope still considerably flatter than its long-term average, we do not expect carry to be a significant driver of foreign private demand next year. **In aggregate, given a modest firming in demand from reserve managers and a step down in the pace of private demand, we expect foreign demand to slow to \$500bn in 2026.**

Banks: Bank demand has incrementally firmed for the second consecutive year, totaling \$180bn YTD, on pace for the best year since 2021. This demand has been driven by robust deposit growth, asset liability management as the Fed has resumed easing, and attractive asset swap valuations. Similarly, we project bank demand for Treasuries should remain firm in 2026, driven by two factors. **First**, trend-like growth is supportive of ongoing deposit growth, and with the Fed's balance sheet normalization complete, reserve balances should stabilize, no longer offsetting organic deposit growth. **Second**, relative value remains a strong support, as intermediate Treasuries remain historically cheap on an asset swap basis, even after accounting for the widening which has occurred over the last 6 months. **Given this backdrop, we forecast \$275bn in bank demand for Treasuries in 2026.**

The wild card stems from the Trump administration's deregulatory efforts: we await formal news on the final eSLR rule, but according to recent media reports, regulators submitted a final plan on this rule in the last two weeks, in line with the proposal discussed in June. The final rule should mitigate the likelihood that funding conditions would tighten substantially, particularly around quarter-ends, as dealers may have more room to navigate during stressed scenarios and on statement dates, but we do not think it indicates a wholesale softening in funding conditions (see [SLR Reform Update](#), Ipek Ozil & Teresa Ho, 11/12/25). Although this ruling should only marginally impact liquidity conditions, the finalization of the rule occurred more quickly than expected. Should the Fed and other regulatory agencies move similarly quickly on the Basel III endgame and GSIB reform, it could positively impact Treasury intermediation and liquidity, but not before 2H26.

Pension/insurance: Stripping activity has totaled \$44.3bn through October, and if the YTD pace is sustained, would mark the slowest pace of purchases since 2022. As we discussed just earlier this year, P demand as a share of total monthly gross duration supply has declined at the long end, slowing from an average pace of \$21bn 10-year equivalents per month in 2023-2024 to about \$17bn YTD (**Figure 27**). We are not surprised, as the largest DB pension funds have been in surplus for more than three years, and their fixed income asset allocation has risen considerably above 50%, warranting a slower pace of demand for risk-free longer-duration assets compared with the torrid pace observed in recent years. Specifically, DB pension asset allocation for the top 100 corporate DB plans has risen from 35% in 2009 to 52.4% as of 2024, and the expected volatility of pension funded ratios has fallen significantly as a result.

NISA, an asset manager with strong expertise in interest rate risk management, has constructed a Pension Surplus Risk Index, which estimates the future funded status volatility of US DB plans. Their work shows that the annualized volatility of DB pension surpluses stands at 5.6% (**Figure 28**). This suggests US DB pension plans have significantly de-risked, and that their demand for longer-duration Treasuries should slow in coming years. What's more, given that most corporate DB plans closed to new

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entrants over a decade ago, the duration of this liability should shorten over time, meaning that what demand persists should also roll down the curve to the intermediate sector in the coming years. **Taking this into account, we forecast pension and insurance demand for Treasuries will run at about \$125bn in 2026, a pace similar to what has been observed in 2025.**

Figure 27: The pace of stripping demand has slowed from its peak in 2024 and LDI investors are absorbing a smaller share of duration supply at the long end...

Average monthly pace of stripping demand (lhs; \$bns of 10-year Treasury equivalents) versus stripping demand as share of gross Treasury duration supply in 20-year+ sector (rhs; %)



Source: US Treasury, J.P. Morgan

Figure 28: ...as the volatility of DB plan surpluses has fallen to historic lows

NISA Pension Risk Surplus Index*: %



*See [NISA Pension Surplus Risk Index](#)

Source: NISA

Asset managers: Mutual fund and ETF demand for Treasuries has remained relatively stable and firm over the last two years, and we expect a similar trend in 2026. With intermediate sector yields still above the levels that persisted through the ZIRP era and COVID, risk-free assets remain relatively attractive, particularly as the traditional negative correlation between equities and bonds has reasserted itself over the last year. **As a result, we think recent history can be a reasonable guide for the future and expect mutual funds and ETFs to absorb a similar share of net Treasury issuance in 2026, with \$200bn in demand forecast for 2026.**

MMF: At the short end, our colleagues in STFI research are forecasting MMF AUM will remain on a positive trajectory in 2026, which should support demand for T-bills. However, with Government MMF WAMs near the longer end of the range they have held since the pandemic, and the Fed likely to go on hold in early-2026, **we project MMFs will absorb about 50% of net T-bill issuance in 2026, resulting in about \$375bn in net demand for the year.**

Using the projections discussed above, we present our demand forecasts by major investor type in **Figure 29**. If our projections come to fruition, we will need to find investors to digest \$441bn in additional Treasury supply in 2026, which would represent a better supply-demand equilibrium than in 2025. The risks to these projections are two-sided. While recession risks have declined from earlier this year, they remain elevated, and we would expect to see stronger demand in a recession, especially because equity/bond correlations, which had been positive for most of 2022-2024, have reverted to negative this year. However, as discussed above, if the Supreme Court rules against IEEPA, this could at least temporarily create fresh policy uncertainty, resulting in higher term premium and reduced demand for longer-duration Treasuries.

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Figure 29: We project firmer bank, Fed, and MMF demand, while the pace of foreign demand slows
Annual net issuance of Treasuries versus purchases by investor types; \$bn

	2017	2018	2019	2020	2021	2022	2023	2024	2025*	2026*
UST net issuance; \$bn	557	1134	1068	4301	1607	1353	2434	1974	2355	2321
Investor										
Foreign Investors	308	120	298	67	606	393	594	609	675	500
Commercial banks	-43	87	126	328	449	9	-83	194	210	275
Pension/Insurance**	151	57	6	13	179	-8	143	216	100	125
Broker dealers	17	132	-47	-9	-104	85	121	125	100	125
Mutual funds/ETFs	186	121	187	24	410	127	101	211	200	200
Money market funds	-95	189	178	1343	-651	-751	1236	725	300	375
Fed	-9	-214	60	2388	963	-594	-720	-475	-100	280
Demand gap***	41	640	262	146	-244	2091	1042	368	870	441

* 2025 and 2026 are J.P. Morgan estimates

** Includes private and state pension funds, life and property/casualty insurance companies

*** Positive number means supply exceeds estimated demand

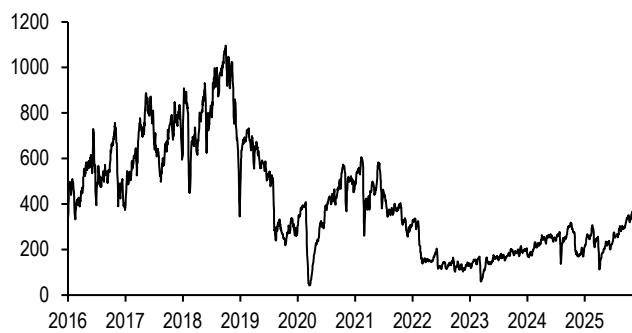
Source: Federal Reserve, J.P. Morgan

Treasury market functioning and liquidity in 2026

In our 2025 Outlook, we argued that a gentle normalization of policy rates would lead to improved liquidity conditions. That expectation has largely been realized, as duration-weighted market depth has continued its medium-term rise and now stands at its highest level since October 2021 (Figure 30). This improvement has been supported by declining volatility throughout the year; historically, market depth has displayed a non-linear, inverse correlation with volatility (Figure 31). That said, this year's rise in market depth has lagged what we would have expected given this relationship — in other words, market depth has settled at lower levels for a given level of volatility than has been previously observed.

Figure 30: Market depth has risen 80% over 2025, and sits at its highest levels since late-2021...

Duration-weighted Treasury market depth*, 1-week moving average; \$mn 10-year Treasury equivalents

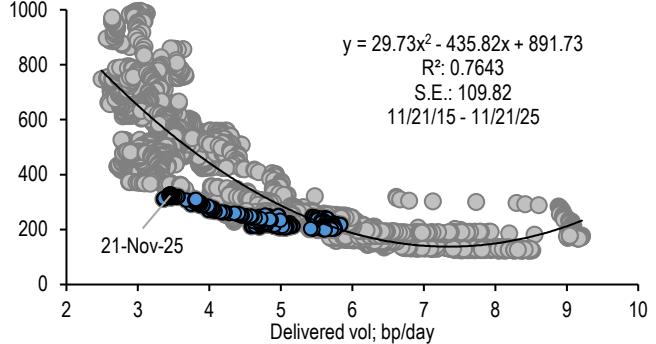


* Sum of the three bids and offers by queue position, averaged between 8:30 and 10:30am. This is the sum of 2-, 5-, 10-, and 30-year depth in 10-year equivalents

Source: J.P. Morgan, BrokerTec

Figure 31: ...as delivered volatility has declined, though baseline liquidity has been lower this year than in prior low-vol environments

3-month moving average of duration-weighted Treasury market depth*, regressed on 3-month standard deviation of daily changes in US-GBI yield (bp/day), regression over the last decade (2025 values shaded in blue); \$mn 10-year Treasury equivalents



* See Figure 30 for more details

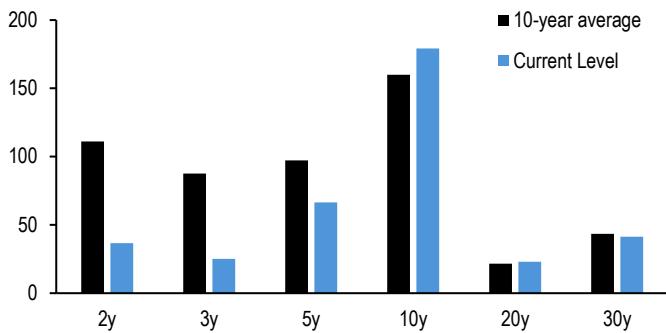
Source: J.P. Morgan, BrokerTec

This lower level of baseline liquidity can be partially explained by diverging trends in market depth and volatility by sector. Notably, the front end has lagged the broader recovery in depth, rebounding from its 2022 trough but remaining well below its 10-

year average (**Figure 32**). The largest driver of front-end volatility is policy uncertainty, which remains elevated compared to where it was a decade ago, in the latter half of the ZIRP era. In contrast, long-end market depth, which is less sensitive to policy uncertainty, is now at or above historical averages, and depth in the 10-year sector specifically now exceeds its 10-year average. Some portion of this improvement likely also reflects the buyback program, which has supported dealer intermediation and provided a tailwind for market depth.

Figure 32: Front-end market depth still sits well below historical levels, while depth has fully recovered to or exceeded 10-year averages at the long end

Treasury market depth* by tenor, 10-year average** versus current level; \$mn 10-year Treasury equivalents



* The sum of the three bids and offers by queue position, averaged between 8:30 and 10:30am.

** 20-year sector is averaged from May 2020

Source: J.P. Morgan, BrokerTec

Figure 33: Dispersion to our fitted curve has continued to decline from the 2022 peak, though it remains above pre-pandemic levels

RMSE of J.P. Morgan Treasury par curve, 1-week moving average; bp



Source: J.P. Morgan

Away from market depth, we observe evidence of improved liquidity and market functioning across the other metrics we track. Yield curve dispersion, as measured by the root mean squared error (RMSE) of our Treasury par curve, has continued to decline from its 2022 peak, which coincided with the Fed's breakneck tightening cycle and the onset of QT (**Figure 33**). As we have noted previously, RMSE is closely correlated with volatility; thus, the same low-vol environment that has supported market depth has also reduced dispersion (see [Treasuries 2025 Outlook](#), 11/26/24). Price impact, which measures the average move for a \$100mn notional trade in a given tenor, has also continued to decline and now sits near the lows of its 3-year range. By combining these factors with market depth, we construct a broad index of market functioning (**Figure 34**). This index displays similar trends to those noted above, with functioning sitting considerably above its prior three-year average, and the biggest improvement evident in the 10-year sector.

Separately, primary dealer inventories have also risen, outpacing the growth of the Treasury market. Dealer inventories, which represent a dealer's capacity to warehouse risk, are now approaching the highs of the post-GFC period as a share of Treasury debt outstanding, though still remain well below pre-GFC levels (**Figure 35**). Ongoing regulatory efforts to improve Treasury market intermediation could leave room for dealer balance sheets to expand further over time, but the process is in its early stages.

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Figure 34: An array of liquidity metrics indicate that Treasury market functioning is considerably above medium-term average levels across the curve

Current levels and 3-year z-scores for Treasury market depth*, price impact**, and Treasury curve RMSE***, by sector of the curve, with Treasury market functioning index†; units as indicated

	Market depth (\$mn)		Price impact (32nds)		RMSE (bp)		Market functioning index
	Current	3y z-score	Current	3y z-score	Current	3y z-score	
2y	161.0	2.3	0.45	-0.8	1.3	0.9	0.8
5y	121.1	1.1	0.39	0.6	0.9	0.8	0.8
10y	179.1	1.9	0.71	0.5	1.3	1.0	1.2
30y	21.0	0.9	0.99	0.0	1.1	0.5	0.5

* The sum of the top 3 bids and offers by queue position, averaged between 8:30 and 10:30am

** Price impact is the average move in order book mid-price against a \$100mn flow in traded notional. See [Drivers of price impact and the role of hidden liquidity](#), 1/13/17 for more details

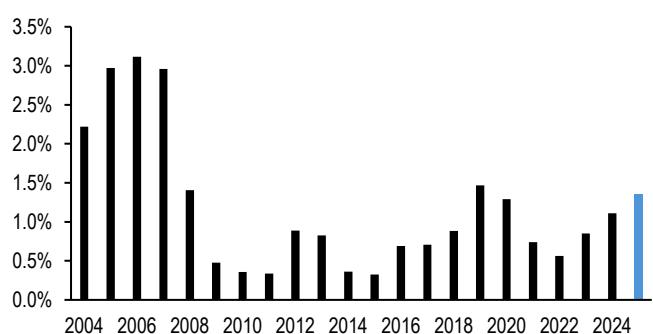
*** Root Mean Square Error of J.P. Morgan par fitted Treasury curve. We use Fed purchase buckets: 2y= 0-2y, 5y = 3-5y, 10y = 7-10y, 30y = 20-30y

† We average the market depth, price impact, and RMSE z-scores. We multiply the price impact and RMSE z-scores by -1 so positive z-score means better Treasury market functioning

Source: J.P. Morgan, BrokerTec

Figure 35: Dealer inventories have risen as a share of the Treasury market, but remain well below pre-GFC levels

Primary dealer inventory in Treasuries as a share of total marketable Treasury debt outstanding, annual average*, %



* 2025 through 11/14/2025

Source: J.P. Morgan, Federal Reserve Bank of New York, U.S. Treasury

Looking ahead to 2026, the macro environment should be supportive of continued improvement in Treasury market liquidity. With the Fed approaching its terminal policy rate for the cycle and the distribution of policy rate outcomes compressing, our colleagues in derivatives strategy argue for lower implied volatility in 1H26. Though implieds do not fully map to delivered volatility, this supports a normalization of policy uncertainty and a further rise in market depth, especially in the front end and belly.

This constructive outlook for market functioning should create trading opportunities in less liquid off-the-runs that benefit from low volatility and robust Treasury market liquidity. **Thus, the volatility environment should be supportive of off-the-runs compressing versus on-the-runs in 2026, though with dispersion at low levels, this outperformance is expected to be only modest.** This should also impact Coup/P spreads, which have generally continued to narrow off their peak this year, but have widened sharply in recent weeks (**Figure 36**). Coup/P spreads are most sensitive to the supply of P-STRIPS outstanding, but are also driven by broader market functioning. This recent sharp underperformance has occurred even as stripping activity has continued to slow over the course of the year, leaving average Coup/P spreads appearing too wide versus their drivers (**Figure 37**). **Looking ahead, with stripping activity expected to moderate and volatility likely to decline modestly, against the backdrop of cheap valuations, this should bias Coup/P spreads narrower into 2026.**

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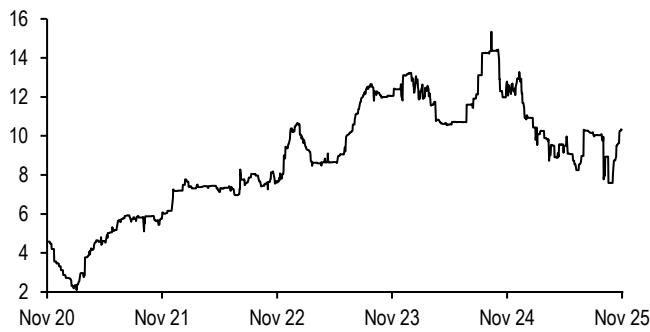
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Figure 36: Coup/P have continued to narrow from their 2024 peak amid slowing P-STRIPS demand...

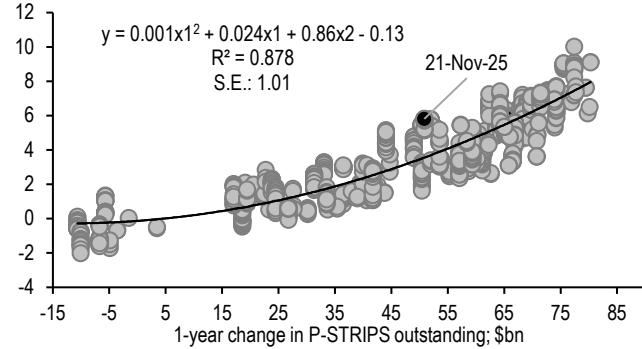
Average Coup/P spread for all STRIPS in 2042-2052 sector; bp



Source: J.P. Morgan

Figure 37: ...though appear too wide versus the pace of stripping activity and the level of implied volatility

Average Coup/P spreads for the 2042-2052 sector regressed on 12-month change in P-STRIPS outstanding (\$bn) and 1yx10y swaption implied volatility (bp/day), regression over the last 5 years; bp



Source: J.P. Morgan, US Treasury

The risks to this outlook are two-sided. On the one hand, more broad-based improvements in liquidity could come from the financial deregulatory efforts of the Fed and other banking regulators, but as we discuss above these are unlikely to come to fruition until 2H26. Conversely, there are macro risks to the downside, as we still place a roughly one-third probability on a U.S. recession by the end of 2026, along with a further one-third likelihood of a productivity boom scenario. These tail risks prevent the distribution of Fed outcomes from fully converging and may cause headwinds to further liquidity improvements until the economic outlook becomes clearer.

Trading themes

- **Position for the 5-year sector to cheapen on the 2s/5s/10s butterfly**

The 5-year sector's performance reflects medium-term Fed policy expectations, with the sector tending to underperform along the curve as markets price in less easing, and vice versa. We recommend 50:50 weighted 2s/5s/10s belly-cheapening butterflies to position for a shallower easing cycle than the market expects, with a relative value overlay.

- Buy 50% risk, or \$67.4mn notional of T 3.5% Oct-27s (yield: 3.513%; bpv: \$185/mn)
- Sell 100% risk, or \$55.8mn notional of T 3.625% Oct-30s (yield: 3.621%; bpv: \$448/mn)
- Buy 50% risk, or \$15.4mn notional of T 4% Nov-35s (yield: 4.062%; bpv: \$811/mn)
- Weighted spread is 16.7bp. One-month weighted carry is -0.9bp and roll is -0.7bp

- **Position for modestly higher yields once the Fed goes on hold in the spring**

As US growth returns to trend and labor markets begin to stabilize, we expect the Fed to deliver fewer cuts than markets are currently pricing, and for the conversation to gradually turn to hikes. While we do not expect the Fed to deliver hikes before 2027, this shifting landscape should modestly lift yields from the spring onward.

- **Expect off-the-runs to compress modestly versus on-the-runs in 2026**

A lower volatility environment should be supportive of off-the-runs compressing versus on-the-runs in 2026, though with dispersion at low levels, this outperformance is expected to be only modest.

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- **Coup/P spreads likely biased narrower against a backdrop of moderating stripping activity and declining volatility**

Coup/P spreads appear wide relative to their drivers, and a backdrop of improving market functionality alongside reduced demand for P-STRIPS should favor Coups over Ps in 2026. As stripping demand moderates and volatility declines modestly, this should bias Coup/P spreads narrower into 2026.

For a list of closed trades, please see [Treasuries](#), *US Fixed Income Markets Weekly*, 11/14/25.

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