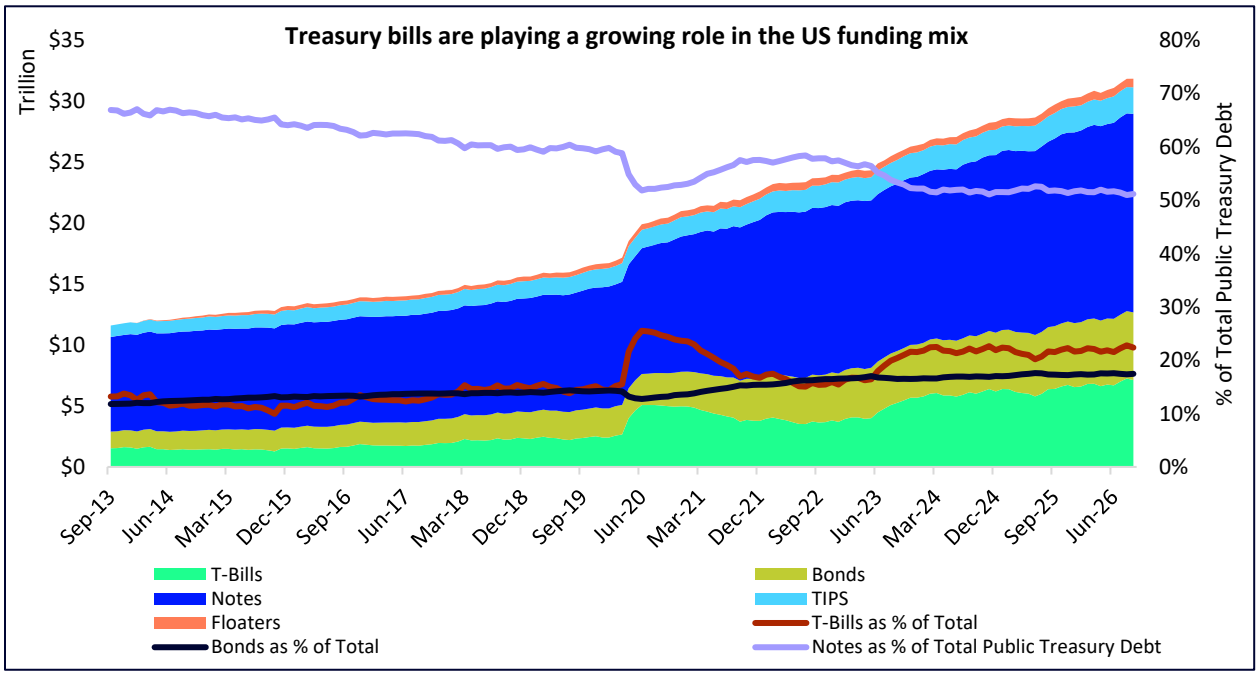
STATE STREET INVESTMENT MANAGEMENT

COMMENTARY
October 29, 2026

Mind on the Market

Chart of the Week



Source: Bloomberg, as of September 30, 2026.

As US borrowing needs continue to grow, how the Treasury finances that debt is becoming almost as important as how much it needs to borrow. Recent issuance has tilted toward Treasury bills, where demand has remained deep, rather than longer-duration securities that require investors to absorb more interest-rate risk. That shift matters beyond the Treasury market: heavier front-end issuance can influence money-market conditions and, as reserves become less abundant, complicate the Federal Reserve's control of short-term rates. As a result, investors should pay closer attention to the interaction between Treasury supply and the Fed's balance sheet, as growing financing needs could increasingly require monetary policy implementation to absorb the consequences of fiscal policy.

Contact

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Weekly Highlights

Increase in 12-Month Average US Treasury Bill Auction Size Over the Past 5 Years	Increase in Total US Treasury Debt Over the Past Five Years	New Short-Term Treasury Tenors Added Over the Past Decade
166%	41%	3
Source: Bloomberg, as of September 30, 2026.	Source: Bloomberg, as of September 30, 2026.	Source: US Department of Treasury.

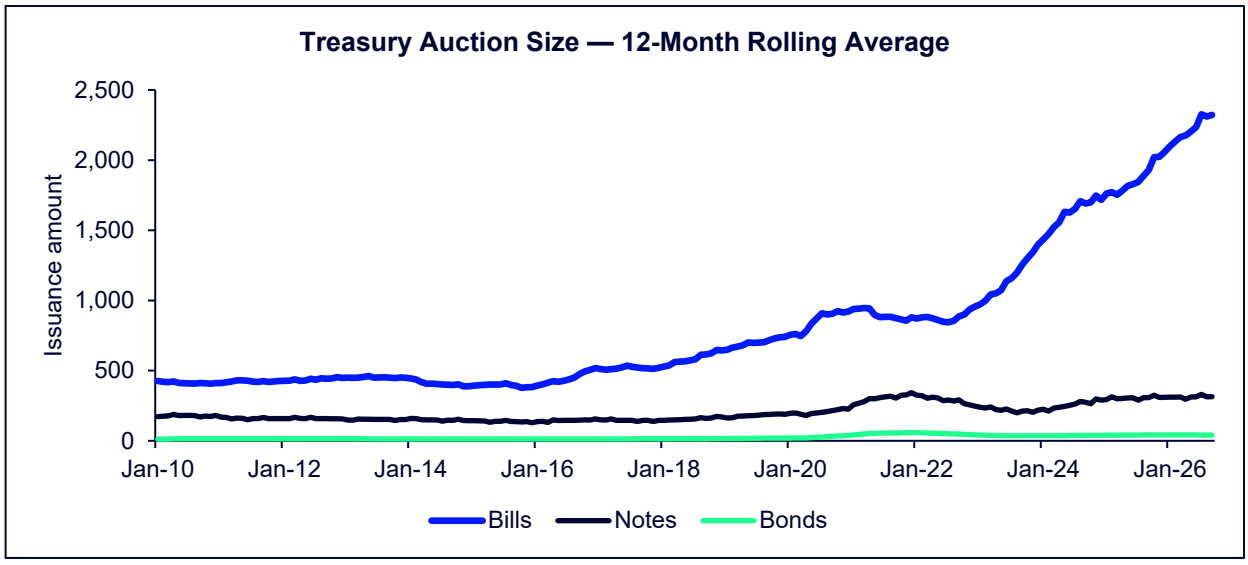
Where is the Treasury issuing?

The growth in US Treasury debt has not been evenly distributed across the maturity spectrum. As the Chart of the Week shows, the stock of publicly held Treasury debt has increased substantially, while its composition has evolved. US Treasury notes with maturities from two to 10 years remain the largest component, but their share of publicly held debt has trended lower over the period shown. Bills, meanwhile, have taken on a larger role in the funding mix, particularly in recent years. Treasury has also expanded its menu of shorter-dated securities, adding 6-week, 2-month and 4-month bills. After rising sharply in 2020 and subsequently retracing, the bill share has moved progressively higher since 2023.

The recent increase in T-Bill financing is particularly relevant as Treasury's overall borrowing needs continue to grow. Bills provide Treasury with a flexible source of funding into strong demand, while increasing longer-dated US Treasury issuance requires the market to absorb additional interest-rate risk. The key question, therefore, is whether the growing use of bills simply reflects Treasury's preference for flexibility or whether it also reflects where incremental investor demand is strongest. If the marginal buyer is more willing to absorb short-term paper than longer dated debt at prevailing yields, Treasury may have less flexibility to extend its funding mix without offering greater yield compensation.

Recent Treasury auction size growth has been concentrated at the front of the curve

Figure 2: Treasury issuance has grown fastest where investor demand is deepest



Source: Bloomberg, as of September 30, 2026. Each point represents a 12-month rolling average, summing the current month and the following 11 rows of monthly issuance for bills, notes and bonds.

Treasury auction data reinforces this shift. As Figure 2 shows, auction sizes have grown much faster for bills than for longer-dated securities, indicating that a disproportionate share of recent financing growth has occurred at the front of the curve.

This pattern is not itself a direct measure of investor demand, but demand is an important part of Treasury's financing decisions. Treasury seeks to finance the government at the lowest expected cost over time while maintaining regular and predictable issuance, manageable rollover risk and a liquid market. In developing its financing plans, Treasury monitors market conditions, consults with market participants and surveys primary dealers about the amount of issuance markets could absorb across individual tenors.[1]

Bills play a distinct role in that process. The Treasury Borrowing Advisory Committee, the TBAC, describes bills as shock absorbers that allow Treasury to respond to changing financing needs without

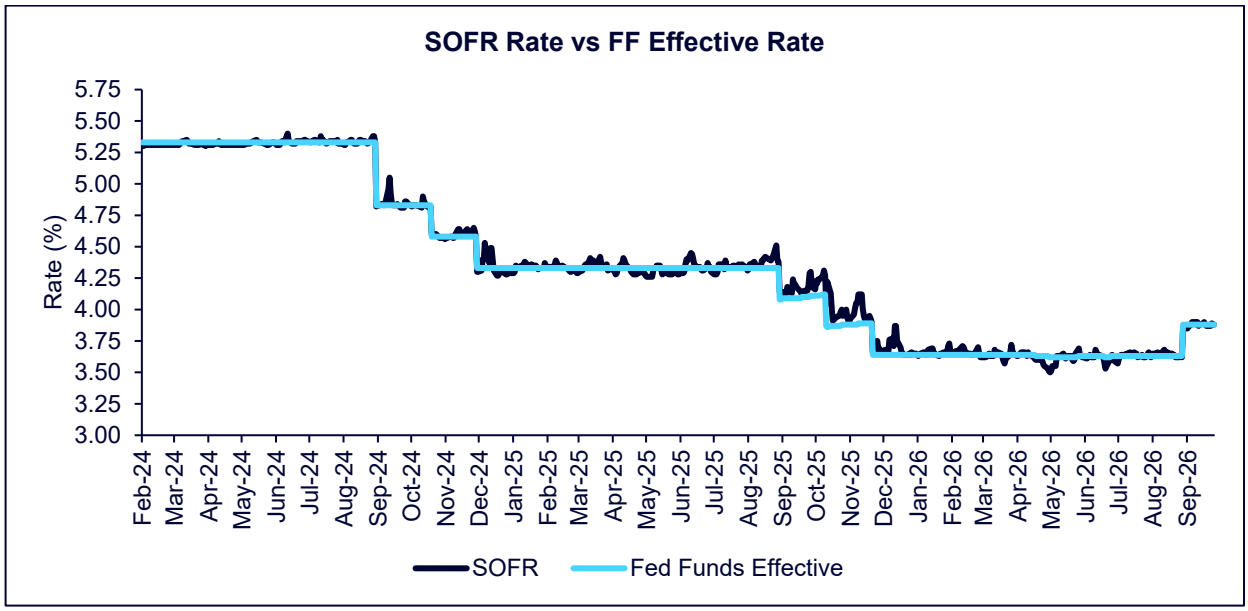
[1] Source: Financing the Government | U.S. Department of the Treasury.

making abrupt changes to coupon auction sizes.[2] TBAC has also identified investor demand as a central consideration in bill issuance and reported that recent increases in bill supply had been met by robust demand from money market funds, households, and businesses. The recent concentration of issuance at the front end is therefore consistent with Treasury directing more incremental borrowing toward a segment where demand has been deep and supply can be adjusted more readily.

That does not establish that the Treasury is unable to issue more notes and bonds. Its financing decisions also reflect cost, liquidity, refinancing risk, and the importance of maintaining predictable coupon issuance. But the widening gap between bill and coupon issuance suggests that the market's capacity to absorb Treasury debt is not uniform across the curve: increasing longer-dated issuance would require investors to accept more duration risk and potentially demand greater yield compensation. As financing needs rise, the relevant question is therefore not simply whether investors will buy the debt, but where the next dollar of supply can be placed most efficiently. To date, Treasury's issuance choices suggest that much of that capacity has been found at the front end.

How the fed is impacted by excess supply in the bills market

Figure 3: Rising repo pressure can spill into the Fed's policy-rate framework



Source: Bloomberg, as of October 15, 2026.

[2] Source: Treasury Borrowing Advisory Committee (TBAC) | U.S. Department of the Treasury.

The implications of rising Treasury supply extend beyond the Treasury market itself. Treasury bills compete with other short-term instruments for investor cash, while Treasury issuance more broadly increases the securities that the private sector must finance. Federal Reserve research finds that both channels can put upward pressure on repo rates: coupon issuance increases dealer financing needs, while bills can draw money away from repo.[3] When Treasury bills offer an attractive yield relative to overnight repo, investors may shift cash from repo into bills, reducing the supply of cash available for overnight lending and putting upward pressure on repo rates. Additionally, more coupon issuance can leave dealers holding larger Treasury inventories that must be financed, increasing their demand for repo funding. As Federal Reserve liquidity becomes less abundant, repo rates also become more sensitive to changes in Treasury supply.

That interaction became more visible in late 2025. Amid declining reserves and substantial Treasury issuance, overnight repo rates rose and remained above the effective federal funds rate. The New York Fed described the episode as illustrating the interconnected nature of money markets.[4] As Figure 3 shows, SOFR moved above the federal funds rate more frequently, signaling that tighter repo conditions were beginning to affect the Fed's broader policy-rate framework. Because SOFR is generally expected to trade close to the federal funds rate, persistent deviations can signal that funding-market pressures are beginning to interfere with the Fed's policy implementation framework.

The Fed responded. In December 2025, the FOMC determined that reserve balances had declined to the ample range and instructed the New York Fed to begin reserve management purchases (RMPs) to maintain reserves within that range. Those purchases increase both the Fed's securities holdings and the quantity of reserves in the banking system and are conducted primarily in Treasury bills.

This is where Treasury's growing reliance on the front end becomes particularly important. The Fed's stated purpose for RMPs is monetary-policy implementation, not financing the federal deficit. Yet Fed research identifies Treasury bill supply as one factor affecting the relationship between repo conditions and the size of the Fed's balance sheet, while the New York Fed says RMP decisions depend partly on current and expected money-market conditions.[5] If rising issuance continues to pressure short-term funding markets as reserves become less abundant, maintaining control of overnight rates may require a larger Fed balance sheet than would otherwise be necessary. Fiscal financing decisions can therefore affect the liquidity the Fed must provide to implement monetary policy effectively.

[3] Source: The Fed - Repo Rate Sensitivity to Treasury Issuance and Quantitative Tightening.
[4] Source: The Federal Reserve's Transition to Ample Reserves: A View from the SOMA Annual Report.
[5] Source: The Fed - Repo Markets and the Fed's Balance Sheet: Implications for Monetary Policy Implementation.

What does this mean for investors?

For investors, the key takeaway is that Treasury supply is becoming an increasingly important input into both the level and shape of the yield curve. The late-2025 experience demonstrated how Treasury issuance, declining reserves and tighter money-market conditions can interact, with repo pressures ultimately spilling into the federal funds market. That dynamic could become more relevant as financing needs remain elevated, particularly if the Treasury continues to place a meaningful amount of incremental supply at the front end.

At the same time, greater reliance on bills does not eliminate the longer-term funding challenge. Extending more of that borrowing farther out the curve would require investors to absorb additional duration risk, potentially requiring greater yield compensation. This reinforces our preference for defensive short-rate positioning and selective duration additions rather than taking excessive fixed-duration exposure at current levels. Until investors are sufficiently compensated for absorbing greater long-term Treasury supply, the balance of risks argues for a cautious approach to duration, with a more attractive entry point potentially emerging at materially higher yields.

Source: Bloomberg, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, State Street Investment Management, US Department of the Treasury. Data as of 10/15/2026 unless otherwise stated.

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*This figure is presented as of September 30, 2026 and includes ETF AUM of $2,285.83 billion USD of which approximately $171.88 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. US Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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