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The $40T Debt Squeeze: How Will The Market React?

The macro setup heading into the most important month of 2026

For the first time in the history of US, the national debt crossed $40T, and the 30-year yields hit its highest level since 2007. On the same morning Treasury Secretary, Scott Bessent, announced he’s doubling the government’s bond buyback program.

Stock market loved it and reacted almost instantly with something we like to call “the dead cat bounce”, because when we put the $4B buyback program next to the $40T in total debt, the math is pretty disappointing.

Bessent is giving us time, and the real question is, how much left of it do we got? This week Kevin Warsh will give his first big speech at Jackson Hole, and what’s going to be said there, will probably have immediate consequences on the market. Furthermore, we have upcoming midterms, and Trump needs both low gas prices as well as a strong stock market (currently 0/2), so understanding the macro is really crucial for anyone interested in the space.

There’s a lot to go through, so we’re going to take you through everything, one piece at a time.

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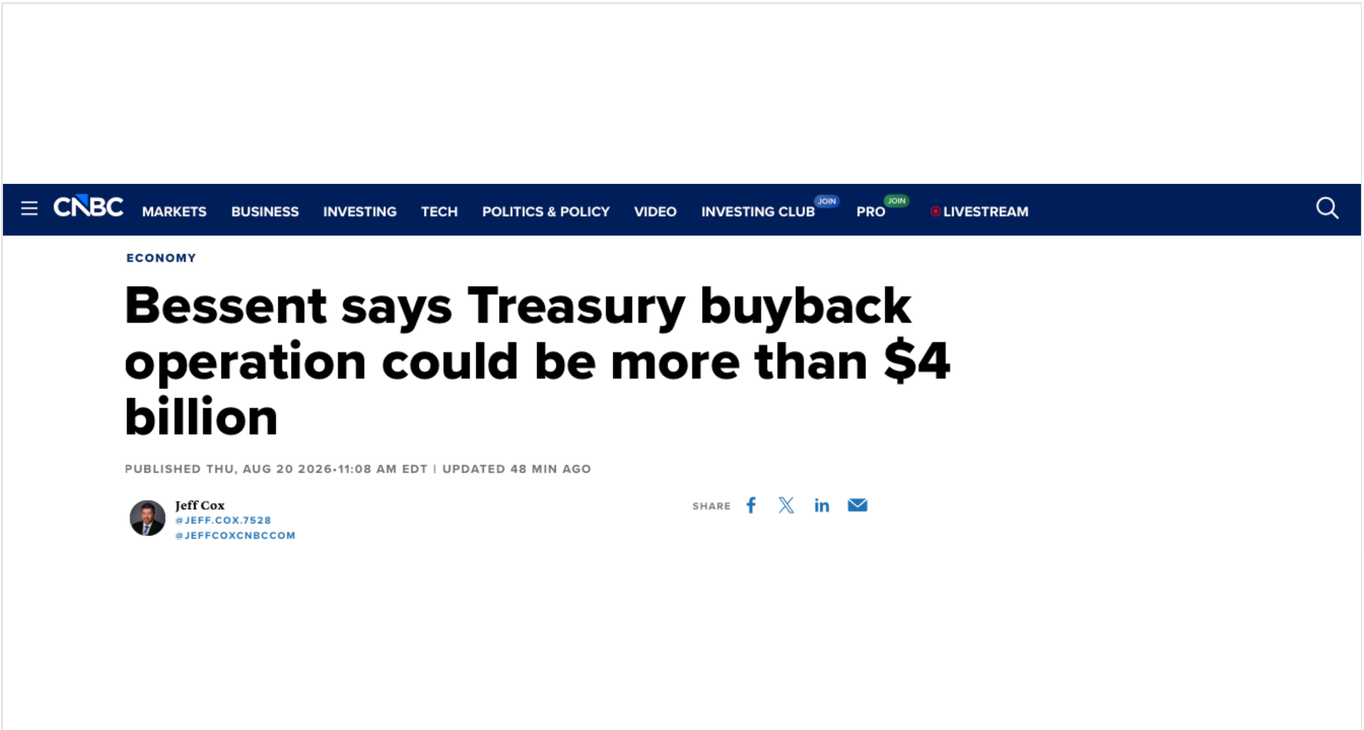
\[2\] The Bessent Put

As we mentioned in the introduction, on August 19, Scott Bessent announced that the Treasury will be doubling its bond buyback operations starting September 9th, with each operation going up to at least $4B (from $2B cap), targeting bonds in the 10 to 30 year range.

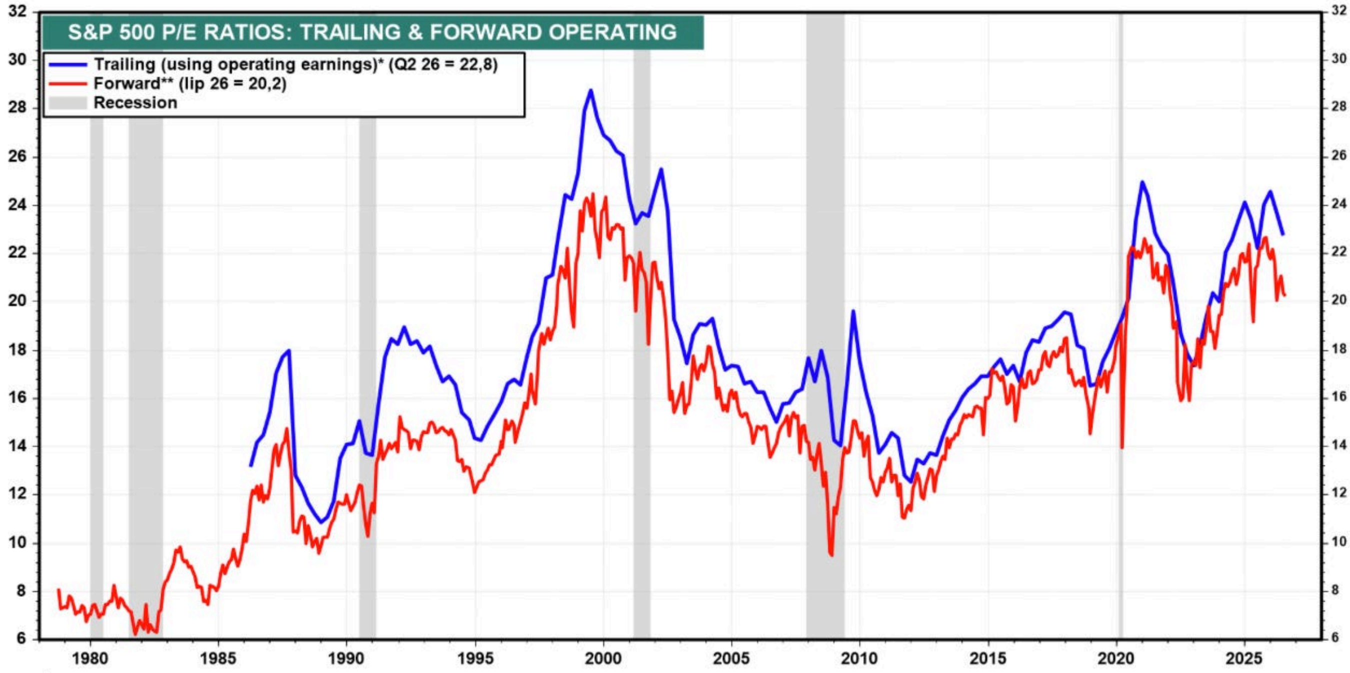


Because there's been a buyers' strike on the long end since late June, yields have been going higher almost every week since then, with the 30-year hitting its highest level since 2007 (pre-GFC). And as we said, the reaction to the buyback information was immediate, the 10-year fell 6 bps to 4.647%, and the 30-year dropped 9bps to 5.196%.

However, you have to know the treasury isn't really paying down debt, because Bessent is basically buying the slow debt (10/30-year) and replacing it with fast one.

There's also a mathematical reason why Bessent did what he did. Let's get the 4.7% on a 10-year yield, add the standard equity risk premium of 4%, and you get 8.7% return that the market demands from the stocks.

When we invert that number and divide it (1/8.7%), we get a fair PE of 11.5x, and S&P500 is trading at almost 23x.



If Bessent did nothing about the yields and they kept climbing, the math would force 30 to 40% correction in stocks to close the gap between fair PE and where we're at.

Thomas Simons from Jefferies' said that this move was

> "a shot from the hip."

And Evercore commented that Bessent is:

> "hitting bond shorts with a surprise announcement on an August day with thin liquidity".

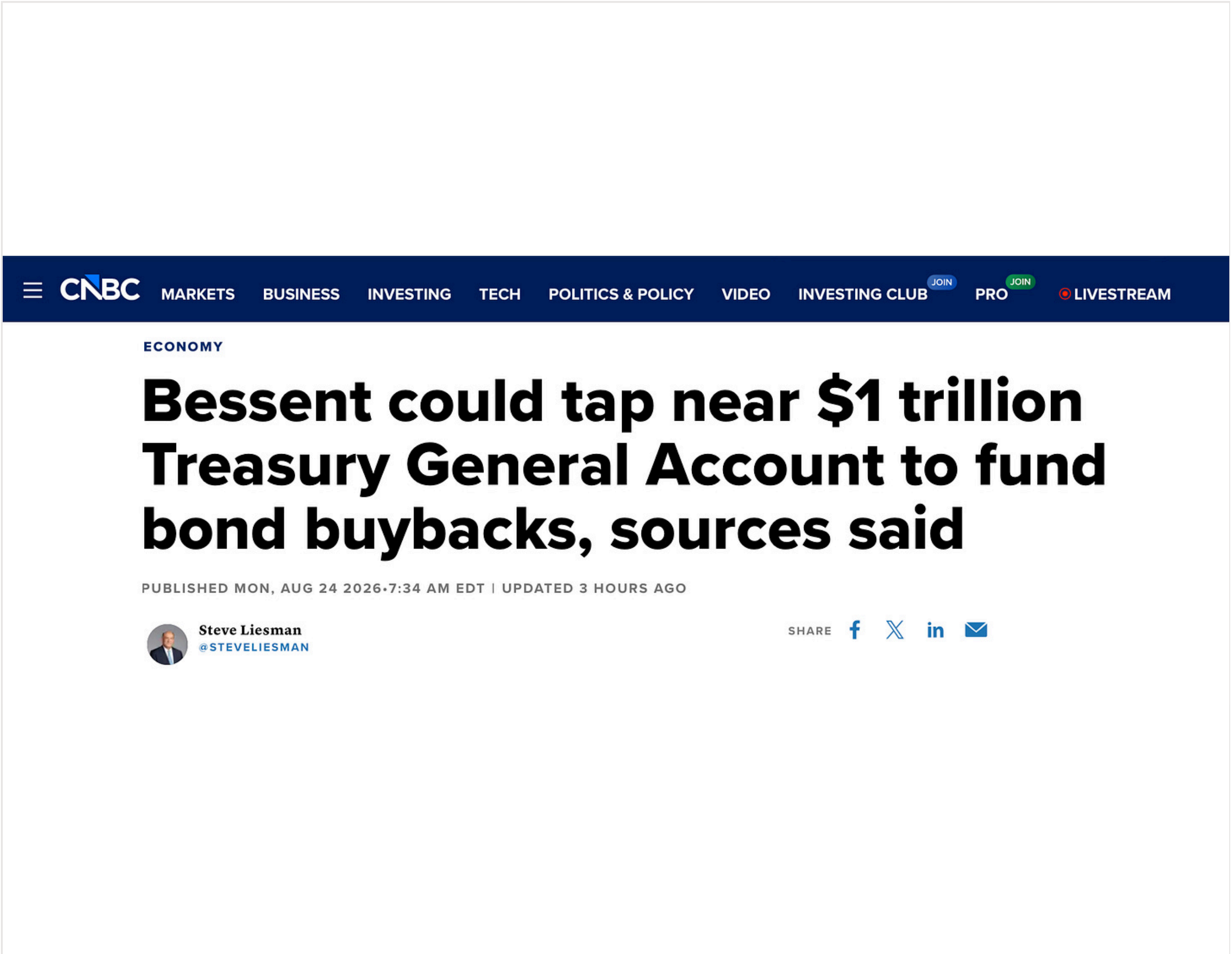
We don't agree with their takes. Firstly, the market was due for some type of correction with that much of a divergence between fair P/E and actual P/E. Secondly, something had to be done, and we think that Bessent did the best possible thing with as little effort as possible.

The $1T Wildcard

Right before we posted this article, we got a news from CNBC that said the Treasury could use General Account (government's checking account) to fund the buybacks. So far, Bessent has built it up to roughly $950B, and under the Biden administration the target was around $550 to $600B.

At first, all of us assumed that he'd only use short term bill issuance to drag yields lower, but now we got information from two senior Treasury officials that the TGA is "considered to be available". He probably won't deploy all of it, but even the fact that it's on the table makes it's easier to believe that the yields won't spiral higher.

Part of this job is already done, Bessent has both time and cash available to drag yields lower, and therefore stabilise the stock market.



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ECONOMY

Bessent could tap near $1 trillion Treasury General Account to fund bond buybacks, sources said

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\[3\] Iran and Oil

Probably one of the most important sections of this article - oil.

The $90 range, where we're right now, puts us in a zone (to put it gently). Assumption at most desks use is that whenever oil is above $80, it adds to the inflation data, specifically, around 0.25% with an increase of $10. And this happens because when people see the gas prices above that magic level, they start to change their spending behaviours (most of the time it means that they expect higher prices everywhere else).

What makes it even worse is the fact that OPEC+ has spare capacity, but they simply have no business in helping US, so there's really no other way to get an oil relief, rather than geopolitics (ending war).

> **Donald J. Trump**
> @realDonaldTrump
>
> No one has given the Islamic Republic of Iran a greater opportunity to make a Deal than me. TRAGICALLY, for them, they have failed to take it. Therefore, today, I am announcing the MOST CRUSHING ECONOMIC OPERATION EVER TAKEN AGAINST ANY COUNTRY! This will be Economic Warfare and Isolation on an unprecedented scale. Their navy is gone, their air force is destroyed, their military factories are now rubble, their currency is worthless, and their country is hanging by a thread. Today, I am also announcing that ANY country that allows its financial institutions, businesses, airports, or government entities to provide any type of lifeline to Iran will itself face TREMENDOUS Economic Consequences. Oil smuggling, swap lines, cash transfers, exchange houses, ship registries, front companies — It all needs to stop NOW. You know who you are. This will be an ECONOMIC D-DAY, and we need all of our Allies to stand with the United States of America to isolate, and defeat, the Iran threat. These maniacs are on the ropes, and these HISTORIC MEASURES will cripple them and their ability to project terror worldwide. IRAN WILL NEVER HAVE A NUCLEAR WEAPON. THANK YOU FOR YOUR ATTENTION TO THIS MATTER. President DONALD J. TRUMP

And if oil prices stay up for long enough, prices of other things will all adjust upward, and that will flow into core readings, which will most likely point the stock market downward once more.

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\[4\] Warsh, Jackson Hole

We wanted to start with this, if you expect dovish commentary from Warsh's side, you shouldn't, because he spent his entire career arguing against that. Since he took over in May, he dropped forward guidance as well as called dot plot submissions "pencil marks".

We covered most of Warsh's policy in our FOMC article last month, so if you want to know Warsh better, you should check it out.

He probably won’t promise rate cuts or give a timeline on when it might be possible, since it’s the whole point of dropping forward guidance. He wants markets to react to data, rather than his own words, and with these prices, there’s really no room for dovish language anyway.

We think that he’ll talk about inflation discipline or balance sheet reduction (or possibly both), and this way he’ll maintain his credibility without the bond market falling apart. And this is a moment where the Bessent announcement connects, because he most likely took the pressure so Warsh doesn’t have to.

We don’t want to say that nothing important will be said here, because that’s just not true. However, we believe that he’ll be pretty terse with words, in order to not mix up the market.

All of this eventually leads to September, where the FOMC meeting will include new economic projections and an updated dot plot.

It also happens to be, that midterms are November 2026. Usually, the markets start pricing election risk 60-90 days earlier, which is roughly September / October. This gets us to the main point which is the fact that September will be the most important month this year. Trump needs to hold the House and Senate, there's CPI (which we will cover in the next section) and there's also the FOMC meeting.

All three catalysts (market pricing midterms, CPI, FOMC) are in September, so you SHOULD expect volatility, with many up and downturns ahead).

\[5\] The Fed is Frozen

To have a full picture you should know where we stand right now, so here's everything:

- **Headline CPI:** 3.3% (everything consumers buy)
- **Core CPI:** 2.6-2.8% (same thing, without food and energy)
- **Core PCE:** 0.2% MoM (basically same as CPI, but using different weights, e.g. less importance to housing)
- **Unemployment:** 4.1-4.3% (percentage of people who want to work, but can't find it)
- **ISM Manufacturing:** 49 (health of US manufacturing, above 50 means expansion, below it means contraction)
- **ISM Services:** 54.1 (same thing but for services economy)

With this mixed data we clearly see that the Fed doesn't have a lot of breathing room. Warsh won't hike with manufacturing slowing down, but as of this moment, he won't be able to cut either with headline CPI at 3.3%. And oil price is making it worse because on September 11, the CPI release will show us August data already including the pressure oil has exerted on broader economy.

All of this above is the reason why investing has been so hard in the last 2 months. Mixed signals in macro directly correlate to the stock market uncertainty, which leaves us with weak movement and volume trading from institutions.

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What You Have To Remember

The watchlist for important macro events looks like this:

1. **Jackson Hole this week** (specifically listen to Warsh tone, although he has been pretty good in marking his emotions or giving remarks)

1. **September 11 CPI release** (CPI with oil price above $90)

1. **September 15-16 FOMC** (new projections and Warsh committing to a direction)

1. **Oil price (**staying above $80 takes a toll on inflation, harder to invest in these conditions)

1. **Midterm pricing** (60-90 days early, so September / October, historically the market has been bearish during this window)

1. **Iran War** (Possible resolution would solve a lot of issues for us, and with upcoming midterms, we believe it's the most likely scenario)

Our positioning is has been already alerted in the Discord, and allocations on our AutoPilot portfolios has been changed accordingly. Because of these macro risks we positioned ourselves in a safer manner ($SGOV) to avoid drawdowns caused by factors that we couldn't predict.

If we had to propose one thing to every investor reading this piece, it would be:

Please refrain from aggressive buying.

Until CPI cools off or there are firm agreements regarding the Iran War, you should be careful with your positioning, as the upcoming weeks might be even more volatile than the last two months.