Press Release

Hedge Funds in the Treasury Market

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At about $30 trillion in value, the market for U.S. Treasury debt is the world's largest tradable debt market and serves as the foundation of the global financial system, setting the benchmark for the cost of many financial assets. In a new insight, Policy Fellow Oren Swagel discusses the growing role of hedge funds in the Treasury market, the basis trade, and the trade's potential implications.

Key points:

- In response to elevated debt issuance, the effects of post-2008 regulatory changes, and the needs of traditional asset managers, hedge funds have increased their holdings of Treasuries to record highs.
- Much of this increase has been accomplished using complex trading strategies such as the cash-futures basis trade, which require hedge funds to take on significant amounts of debt to achieve profitability.
- This debt-driven growth in hedge funds' Treasuries holdings offers both potential benefits and risks to the U.S. economy and financial system, including reduced government borrowing costs, more efficient financial markets, and increased vulnerability in the stability of the financial system.

Read the analysis.