



Bond Turmoil – Made in China?

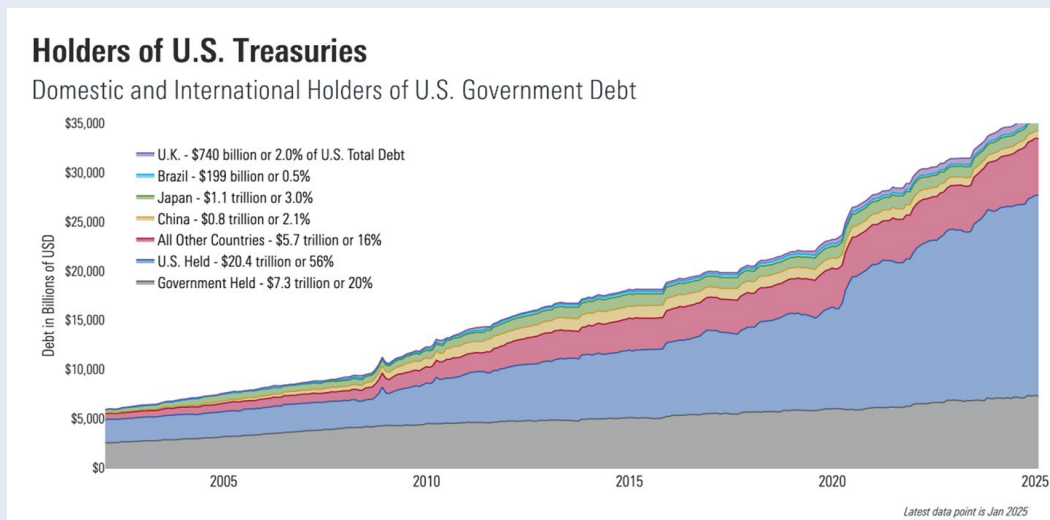
-J. Kevin Meaders, J.D. *, CFP®, ChFC, CLU

April, 2025 – Unless you’ve been sequestered from the planet the last few weeks, you’ve no doubt seen the market turmoil—both in the stock markets and now in the bond markets.

What’s the problem now? Pretty simple, really. Basic supply and demand. There is \$36 trillion of our debt outstanding, held in T-bills, treasury notes, and longer-term bonds.

And we have to sell another \$2 trillion every year to cover our budget deficit.

The chart below shows our mountain of debt and who owns it. Between you and me, the Fed, the insurance industry, and all the other government agencies, Americans own over 75%. But that leaves \$9.25 trillion held by other countries. As of the end of January 2025, China owned \$760 billion.



Now normally, when global stock markets sell off as much as they have recently, the world flecks to US treasuries. This month has demonstrated that this is no longer true. Why? Because the demand is not there, or the supply has increased.

It may be the case that both are true. Certainly, we have alienated many of our trading partners—right or wrong, no one can deny that. So it may be that they are not buying our treasuries this time around. As facts unfold, we find that some are, some aren't.

ALSO, the big also, is of course our intense trade war with China. As it turns out, China owned close to \$761 billion in our treasuries at the end of January 2025ⁱⁱ—which, many have speculated, they are dumping. The Treasury has not updated their April numbers yet, so it could be some time before we know for sure. But I think this reasoning is quite sound.

According to Forbes, “Behind the scenes, U.S. Treasury yields have been rising sharply — not during the trading day, but overnight, when foreign markets are active. These overnight spikes are more than just market noise. They may be the clearest signal yet that China is quietly — but deliberately — selling U.S. Treasuries. And the implications could be significant for the U.S. economy and financial markets.”ⁱⁱⁱ

So, there we have it—greater supply thanks to China and others selling; and less demand from our other normal buyers. The result, the price drops.

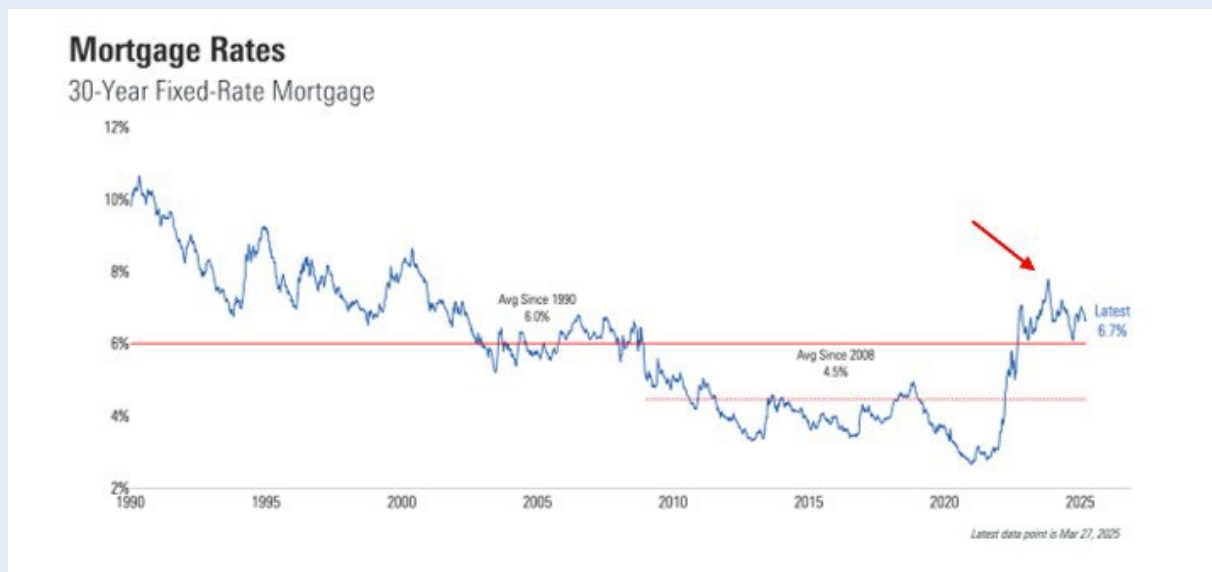
How long will this last? Your guess is as good as mine.

Both the US and China are locked in a death grip. Their economy is dependent on exports to the US, and we are dependent on those exports; AND they hold \$760 billion of our debt.

Tough spot.

The best way out of this mess is to make a deal—and fast. Both Trump and Xi are stubborn and prideful, but hopefully cooler heads will soon prevail.

But that is not all. You may remember that bond prices dropped dramatically last September 19th when the Fed dropped rates by ½ point. That was before the election and any talk of tariffs. In fact, treasuries reacted worse to *that* news than to the recent tariff tantrum.



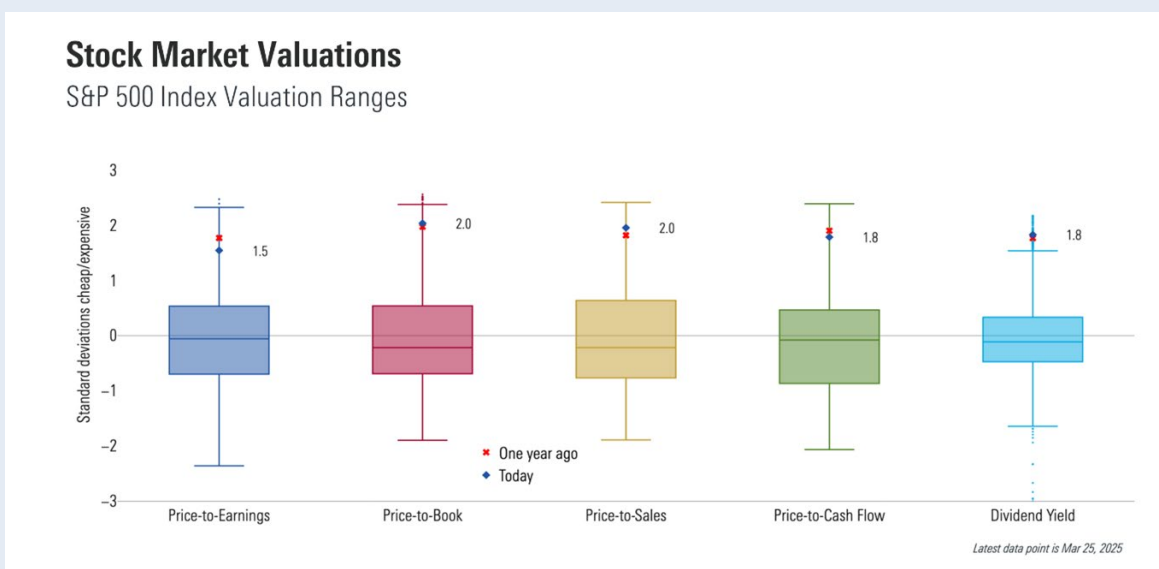
Above is a chart of U.S. mortgage rates.^{iv} The spike at the end there was the Fed lowering rates by ½ point. The bond market wasn't having it. So, it sold off until the rates went back up. Remember, the Fed can control short term rates, but the longer-term rates are market driven. Fixing interest rates is like fixing prices—the uncontrolled market sets it straight.

Another interesting point to make is that municipal bonds from every state and municipality have suffered the same sell-off that started last September—before the election, before the tariffs. Why? They are not held by China or Canada and are not part of this trade war. No one has any incentive to dump them, and the banks aren't being forced to liquidate them as they were in 2008 due to mortgage defaults.

The only answer that still makes any sense is: *inflation*. The bond market must believe that inflation is yet to be controlled, and that rates may need to go back up. The Fed won't do it, so the bond market will—and has.

This brings us to the Fed. Normally, the Fed will drop interest rates when stocks falter significantly, but they have been suspiciously quiet except to say that it's due to the trade war. Trump, of course, has been very critical of Chairman Powell and demands that he lower interest rates.

The Fed, for their part, has always been very resistant to “obey” political calls for action. In fact, my belief is that they are reluctant to lower rates because of that very reason. Certainly, it seems that stocks are still resilient in the face of all this uncertainty.



This is one of my favorite charts because it gives us an easy glimpse of where stock prices are vis-à-vis each important price indicator. No matter how we gauge the fair value of stock prices, we really have nothing to go on but where we are, and where we've been.

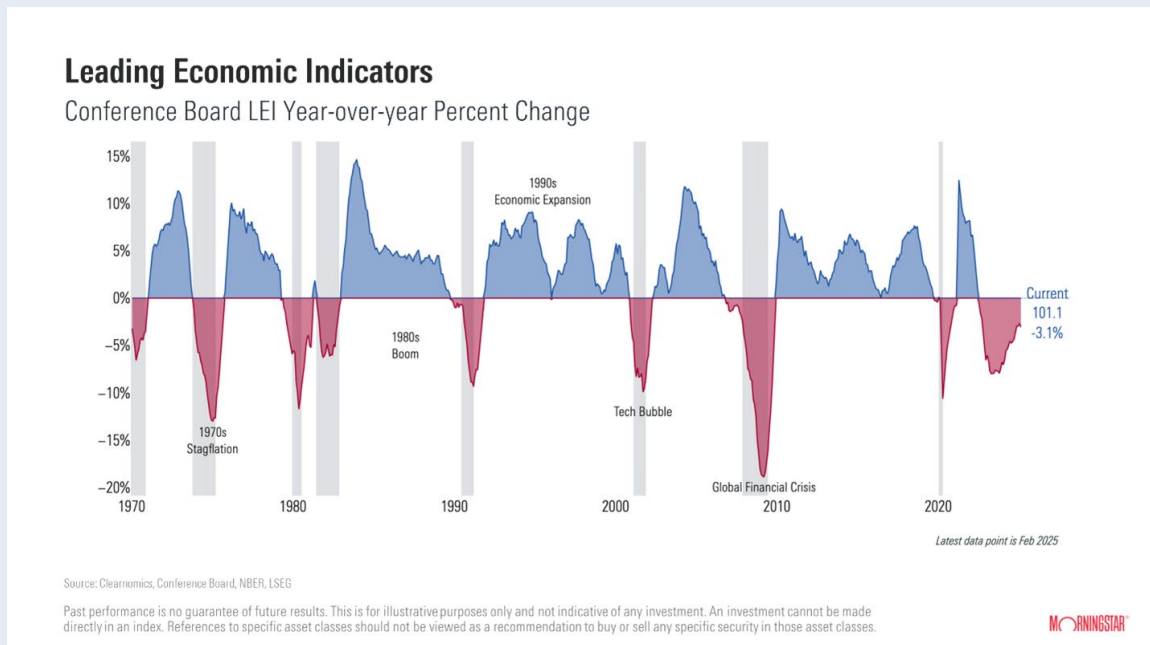
If history matters at all, one should be able to look at this chart and determine if current prices fall within their historical range (the colored boxes), or above or below.

We can see that prices are still above the historical ranges, but much lower than they were at the beginning of the year. In fact, for the most part, we are back where we were roughly one year ago. The question is, of course, what happens next?

We don't think the tariff fallout is over. And there are several other issues to consider. The real estate market is showing serious signs of slowing down, especially in some markets in Florida and Texas. The commercial real estate market is in big trouble, but it seems to never make the news.

Everyday there is a new headline about a company downsizing, and tariff talk tends to paralyze companies into inaction—especially freezing new hires. And now the government is doing the same thing.

All indications are that the tariffs will continue, and thus volatility is likely to continue. We could also see consumer spending drop if consumer sentiment continues to drag. Just as telling, leading indicators are still predicting a recession.



Since 1970, in every single instance that leading indicators have been this deep and wide, we have fallen into a recession (as indicated by the vertical gray bars above).

We see this as a potential buying opportunity, and we have a shopping list. It may not be time to jump all in with both feet, but the markets hate uncertainty. And I don't think anyone can deny that there is plenty of that. I also think we can agree that there is more to come. At some point, the bough may break. A 50% decline in the NASDAQ and a 30% decline in the S&P are not out of the question. And real estate, well, we'll just have to see.

come. At some point, the bough may break. A 50% decline in the NASDAQ and a 30% decline in the S&P are not out of the question. And real estate, well, we'll just have to see.

Believe it or not, all this shake up and volatility can be healthy for our economy. Like Nietzsche said, "What does not kill me, makes me stronger." It's like that for stocks too; if they can withstand this type of market turmoil, their investor base becomes more confident.

As always, I urge you to contact Blake or me with concerns or questions. There is no silly question, and we love hearing from you.

Enjoy the springtime weather while you can, and I hope to see you soon at one of our client events.

My Very Best,

J. Kevin Meaders, J.D., CFP, ChFC, CLU

The views and opinions are those of J. Kevin Meaders, J.D., CFP®, ChFC, CLU and should not be construed as individual investment advice, nor the opinions/views of Cetera Advisor Networks. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Additional risks are associated with international investing such as, currency fluctuation, political and economic stability, and differences in accounting standards. Due to volatility within the markets mentioned, options are subject to change without notice.

Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing. S&P 500 – A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Dow Jones Industrial Average, Dow Jones, or simply the Dow, is a price-weighted measurement stock market index of 30 prominent companies listed on stock exchanges in the United States. The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange.

Securities and advisory services are offered through Cetera Advisor Networks LLC, member FINRA/SIPC, a broker-dealer and registered investment adviser. Cetera is under separate ownership from any other named entity. Estate services offered by Magellan Legal, LLC and tax services offered by Magellan Tax, LLC. Estate and tax services offered separately from Cetera Advisor Networks LLC, which does not provide legal or tax advice.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

ⁱ Source: Morningstar

ⁱⁱ https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html

ⁱⁱⁱ <https://www.forbes.com/sites/joelshulman/2025/04/09/us-rally-at-risk-as-china-may-be-dumping-treasuries/>

^{iv} Source: Freddie Mac