

Markets

## **Bond Traders Laser-Focused on Washington as Debt-Cap Risks Grow**

- Failure to resolve ceiling issues could upend entire market
- Investors in bills and CDS pricing default as a tail risk

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A technical failure by the US to meet its obligations would impact those Treasuries coming due most immediately. Bill markets are pricing in some risk of default in early June – echoing warnings from Treasury Secretary Janet Yellen that there’s a risk the government could run out of funds by then.

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But that could change quickly if negotiations continue to sour. A default threatens to spur big moves around the globe, with the prospect of a major economic downturn and a reassessment of Fed monetary policy potentially igniting a perverse bid for Treasury bonds on haven demand.

Conversely, a resolution could shift the focus back to the outlook for inflation and the credit cycle for traders betting on whether the era of aggressive Fed interest-rate hikes has peaked.