

Capital in Transition: The US Public-to-Private Rotation

As the Fed and Treasury step back, private capital steps in - a macro read on capital demand and supply in the US

July 20, 2026



Vittorio Treichler
Partner & Strategist

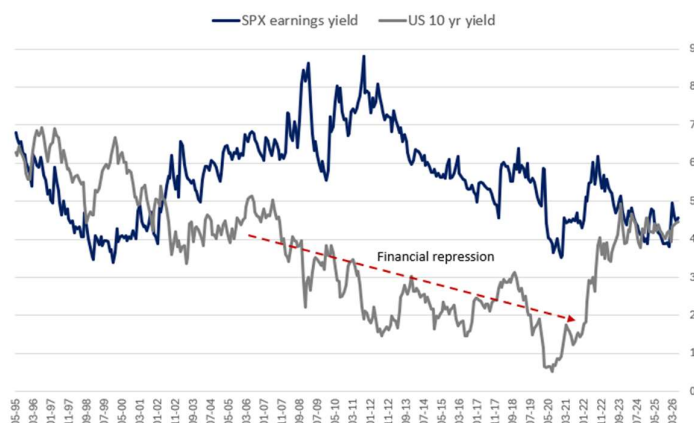
With no major macro catalysts over the past two weeks, and ahead of the bulk of Q2 earnings season, we take this window as an opportunity for a deeper macro dive into the dynamics of capital demand and supply in the United States - a market that, in our view, is going through an interesting transition phase. Don't worry - this note may look long at first glance, but we've leaned heavily on charts to do the talking, so it reads faster than it looks.

Executive Summary

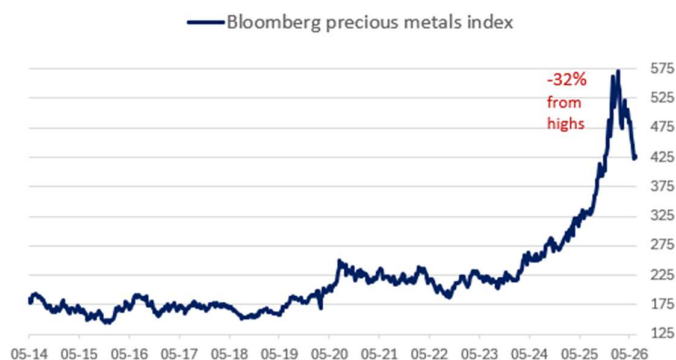
- US Treasury yields, not inflation, appear to be the main driver of recent equity market volatility - and the move looks like healthy normalization rather than a warning sign;
- Breakevens and curve slope confirm this isn't a repeat of April 2025: it isn't about US credibility, the Dollar, or inflation expectations tied to policy;
- We're seeing a broader handoff between public and private financing: as the Fed's balance sheet stabilizes and Treasury issuance holds steady, private credit - both corporate and household - has stepped in to fund a historic wave of investment, led by AI-related capex;
- Expanding bank balance sheets, including Treasury purchases, are supporting M2 growth;
- The scale is large: markets need to absorb an estimated \$2.4 trillion in incremental bond and equity supply in 2026, with tech issuers alone poised to double their bond issuance. In our view, this dynamic is putting pressure on real rates, and could potentially slow down M2 growth in the next quarters;
- Spreads in tech credits are widening at the margin, but so far in an orderly fashion;
- On the evidence to date, this looks like a constructive rotation - private capital picking up the baton from the public sector - rather than a sign of stress in capital markets.

Treasury Yields, Private Credit, and the Great Public-to-Private Handoff

The weakness in select pockets of the equity market over the past few weeks can largely be explained through a macro lens, tied to the dynamics of US Treasury yields, rather than pointing to any broader cause for concern. After the years of financial repression, the correlation between 10-year yields and the S&P 500's earnings yield appears to be normalizing - a healthy, textbook-consistent adjustment rather than a warning sign.



The ongoing sell-off in precious metals fits the same constructive narrative: it looks like the unwind of the Dollar debasement trade, as the Fed regains credibility and Chair Warsh signals his intent to resume shrinking the central bank's balance sheet.



Contrary to the headline narrative, the recent rise in yields is not being driven by inflation, but by the real rate component.





Inflation breakevens - the difference between nominal and real yields - and the slope of the yield curve both confirm this: unlike the tariff-driven tensions of April 2025, the current move is not about US credibility, the Dollar, or Treasuries, nor about inflation expectations tied to the administration's policies.



Where the Pressure Is Coming From

To understand where the pressure is actually coming from, we looked at the key monetary and credit aggregates alongside private- and public-sector issuance (see table). The results point to a meaningful - though only partial - shift in the capital demand/supply mix, with the private sector stepping in as a more active source of financing, without fully replacing the public sector's role.

Methodologically, our exercise here has been to deconstruct M2 growth into its underlying components, isolating which factors are actively supporting it and which are working against it - looking at the expansion or contraction of each contributing driver in turn.

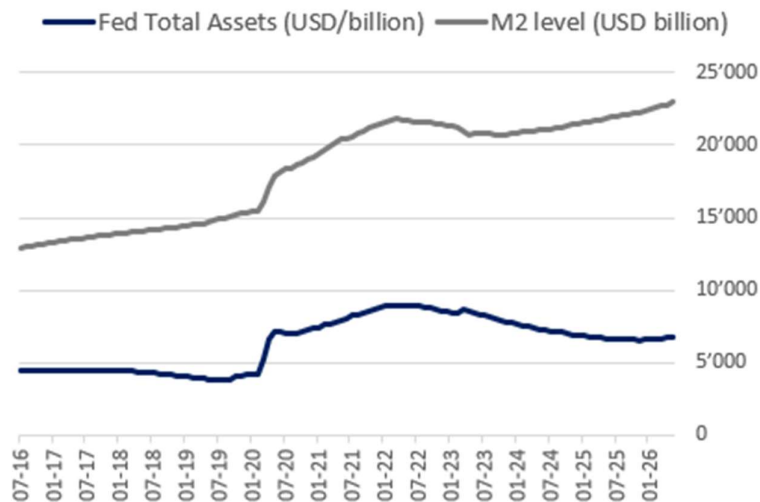
Key stats at a glance

M2 (billion)			Fed balance sheet (bn)		
	level	change		level	change
2025	22'353	868	2025	6'641	-245
2026	23'052	699	2026	6'704	64

Bank hold. Tsy (bn)			TGA (billion)		
	level	change		level	change
2025	4'651	256	2025	837	73
2026	4'754	103	2026	919	81

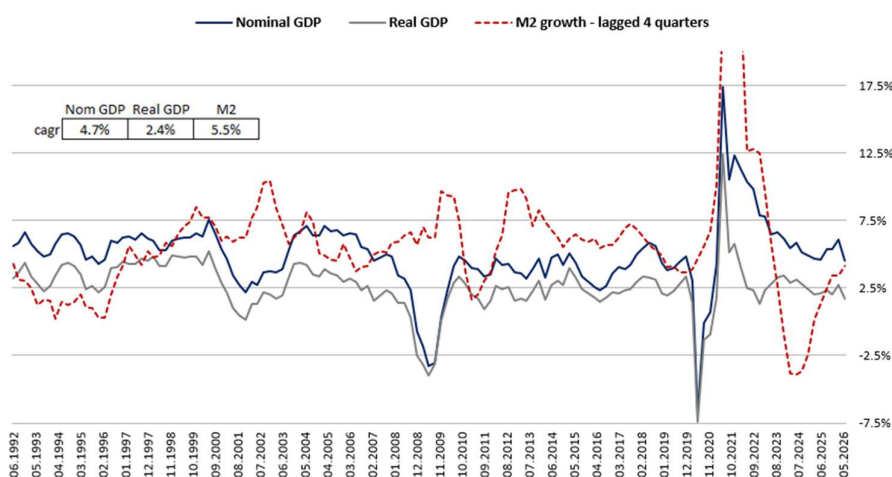
Corp credit (billion)			Household credit (billion)		
	level	change		level	change
2025	2'711	-61	2025	5'099	151
2026	2'895	183	2026	5'155	55

Corp bond issuance (bn)			Equities issuance (bn)		
	level	change		level	change
2025	3'071	824	2025	371	66
2026 est	5'111	2'040	2026 est	810	439

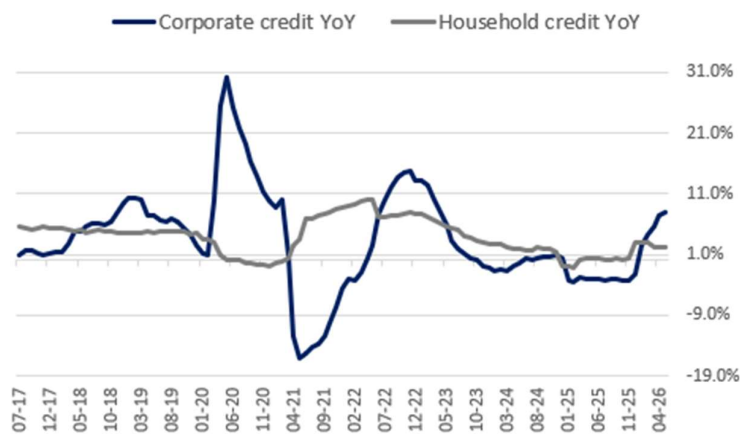


This analysis of M2 matters precisely because of its correlation with Nominal GDP growth, which is in turn a key determinant of corporate revenues - and, by extension, of the earnings growth that has been the primary driver of equity markets in recent years. Over the 1990-2026 period, US M2 has grown at a 5.5% CAGR, outpacing both Nominal GDP (4.7%) and Real GDP (2.4%). M2 growth and Nominal GDP growth show a meaningful lead-lag relationship, peaking at a four-quarter, or one-year, lag - meaning money supply expansion today tends to show up in nominal activity roughly a year later.

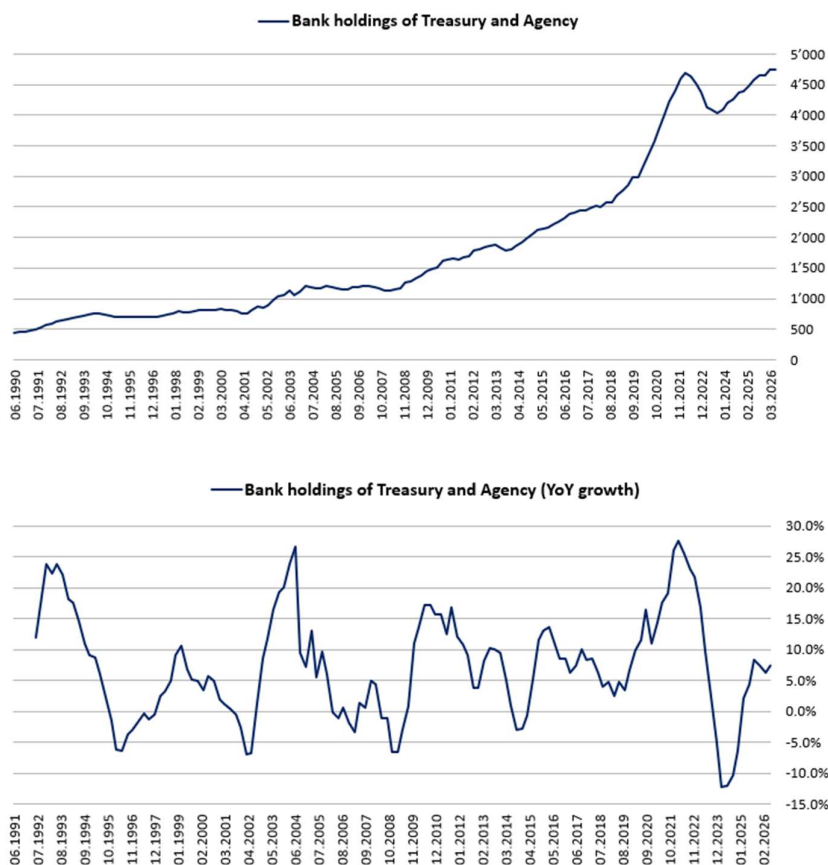
This relationship is notably stronger with Nominal than with Real GDP, suggesting that M2 tracks the inflation component of growth more closely than it does real output. Historically, M2 growth near or above 5% has coincided with periods of sustained nominal expansion, while sharp slowdowns or contractions in M2 have tended to precede periods of disinflation or weaker nominal growth. **The implication, given this lag structure, is that positive M2 growth of around 5% or higher appears to be a necessary - though not sufficient - condition for avoiding nominal stagnation or deflation.**



Corporate credit illustrates this well: after contracting by \$61bn in 2025 (to a \$2,711bn base), it rebounded by \$183bn in 2026, reaching \$2,895bn. Household credit tells a more modest story, decelerating from a \$151bn increase in 2025 to just \$55bn in 2026.



Bank holdings of Treasury securities add a further piece: after growing \$256bn in 2025 (to \$4,651bn), they rose a more modest \$103bn in 2026, to \$4,754bn - still a meaningful, if slower, source of underlying credit creation.



This pickup reflects a regulatory tailwind: the enhanced Supplementary Leverage Ratio (eSLR) reform, effective April 2026, eased the capital constraint that previously discouraged large banks from holding Treasuries, freeing up balance-sheet capacity for exactly this kind of purchase.

Combined, private credit and bank Treasury purchases added \$341bn in 2026 - a real rebound, but still small next to the Fed's own balance sheet, which grew \$64bn to \$6,704bn after a \$245bn contraction in 2025.

Viewed against the broader monetary aggregates, M2 rose \$699bn to \$23,052bn in 2026, following an \$868bn increase in 2025 (to \$22,353bn). Adding up the pieces - private credit (\$238bn), bank Treasury purchases (\$103bn) and the Fed's own modest expansion (\$64bn) - now accounts for the large majority of that \$699bn M2 increase, closing most of the gap left by credit aggregates alone.

The Treasury General Account provides a partial offset on the other side: it grew \$81bn in 2026 (to \$919bn), following a \$73bn increase in 2025 (to \$837bn) - cash sitting idle at the Fed rather than circulating through bank deposits, and so a modest, persistent drag on M2 growth rather than a source of it.



In scale terms, private credit is now comparable to the Fed's balance sheet: \$2,895bn in corporate credit and \$5,155bn in household credit, versus \$6,704bn at the Fed - with bank Treasury holdings, at \$4,754bn, a similarly sized pool in its own right.

Gross securities issuance tells a complementary story - corporate bond issuance alone is estimated to reach \$5,111bn in 2026 (from \$3,071bn in 2025), and equity issuance \$810bn (from \$371bn) - both far exceeding the net credit changes above, reflecting heavy refinancing activity alongside genuinely new financing.

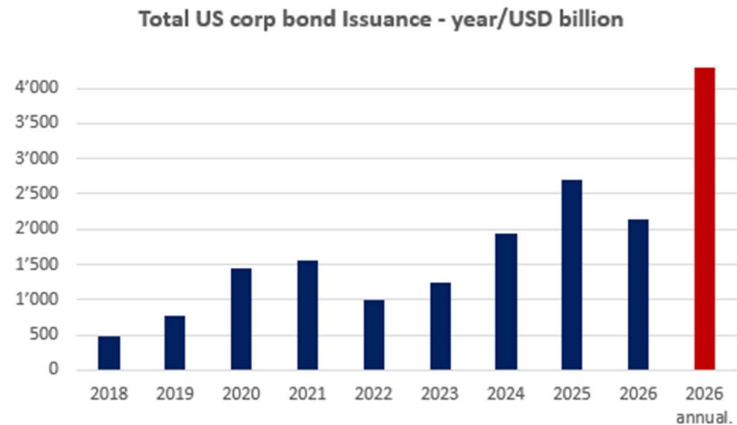
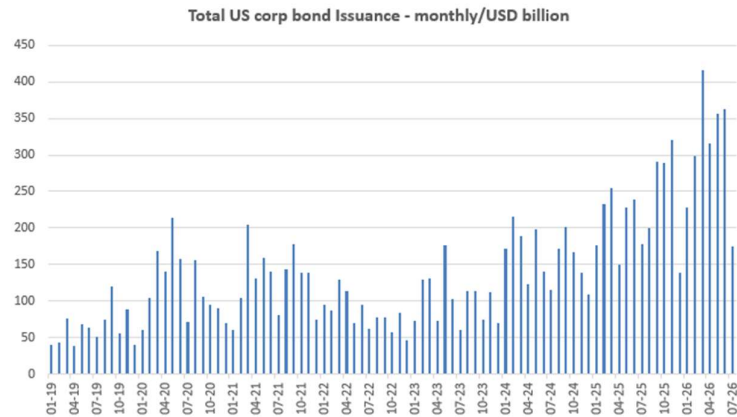
A methodological note: the 2026 issuance figures annualize data from the first half of the year; given several unusually large deal announcements in Q2, this run-rate may overstate the full-year total, as similar-sized transactions are unlikely to repeat at the same pace in the second half.

Taken together, this looks like a partial rotation - the private sector, including banks' own Treasury purchases, absorbing part of the financing role the public sector is stepping back from - rather than a full handoff or a sign of market strain. The still-elevated TGA balance is worth watching as a swing factor: a drawdown from here would add to M2 growth, while a further build would extend the current drag. We see no significant imbalance between capital demand and supply at this stage; for the rotation to continue smoothly, security supply will need to keep normalizing at a pace Warsh can work with as he looks to resume balance sheet reduction.

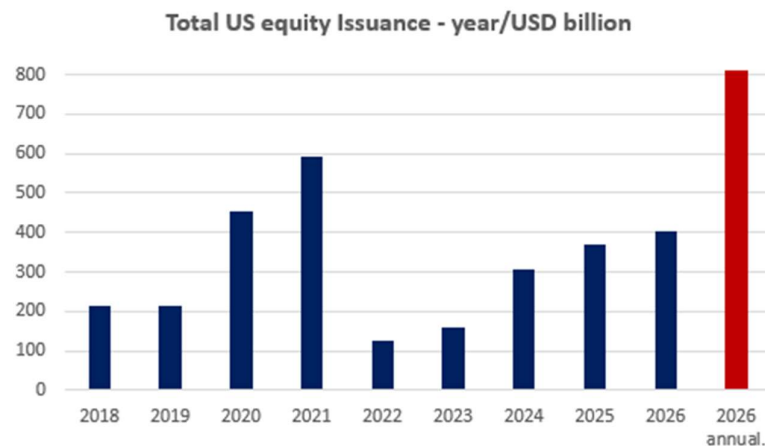
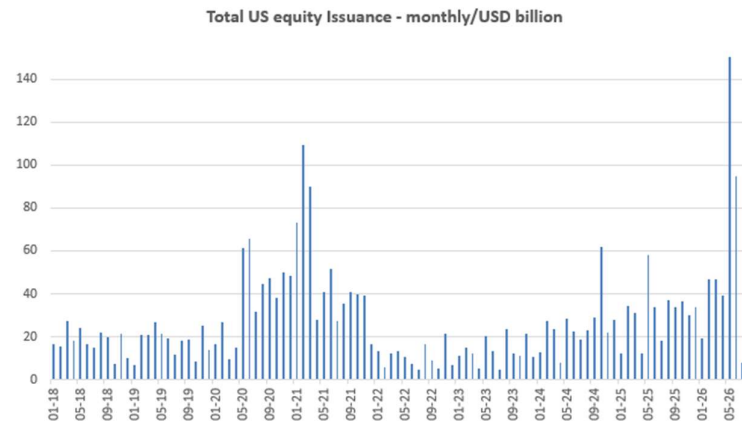
The Capital Absorption Problem

AI-related technology investment is running at roughly \$1 trillion per year, within a total investment envelope of about 18% of GDP, or some \$6 trillion - a scale of capital formation that is itself a constructive signal for the real economy. On an annualized basis, the corporate bond market is on track to grow by around \$2

trillion in 2026 relative to 2025 - the table points to corporate bond issuance rising from a \$3,071bn level in 2025 (itself up \$824bn) to an estimated \$5,111bn in 2026, a \$2,040bn increase. Even if much of the issuance reflects refinancing activity, gross supply still needs to be absorbed by investors, increasing market-clearing pressure on real yields.

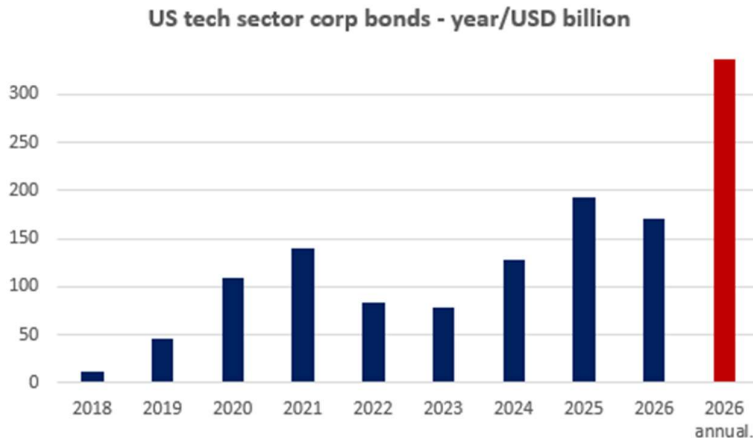


Equity issuance is set to grow by a further \$439bn (from \$371bn in 2025, up \$66bn, to an estimated \$810bn in 2026). Combined, the market needs to absorb roughly \$2.4 trillion in incremental securities supply next year - a large number, but one that so far the market shows every sign of being able to digest. Historically, 30% of these flows are absorbed by foreign demand.



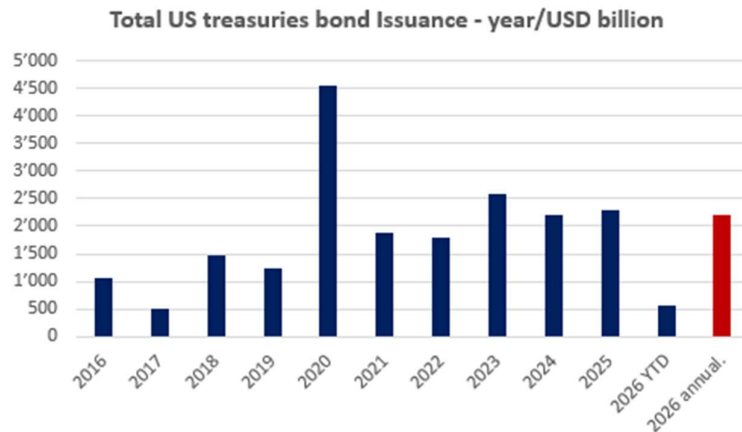
Tech Turns to the Bond Market

Notably, the tech sector has begun issuing bonds at scale, both in dollars and other currencies - an unusual shift for a sector traditionally light on debt, and a natural counterpart to the investment boom described above. Annualized 2026 supply from tech issuers could double, from \$160bn to \$320bn. Spreads on tech-sector paper are widening as a result, but price action so far looks contained and manageable, consistent with a market absorbing new supply in an orderly way rather than showing signs of stress.



Not the Treasury Market's Problem

Despite the large stock of public debt, the liquidity drain does not appear to be coming from this segment. Net Treasury issuance should remain broadly stable in 2026, at around \$2 trillion, and continues to be financed by the foreign sector in a proportion that remains relatively stable - though it has been declining over time.



Conclusion: Two Threads, One Story: Supply Meets Price

Put together, the evidence points to a market in transition rather than under strain - and the two threads of this note are, in fact, one and the same story: the roughly \$2.4 trillion in incremental securities supply that markets need to absorb in 2026 is itself a primary driver of the real-yield normalization described above, not a separate, parallel dynamic.

As private credit and bank balance sheets step in to fund this wave of issuance - alongside a public sector that is stepping back - real rates are simply repricing to clear a larger supply of capital, after years of financial repression suppressed that signal. On the evidence to date, this absorption is happening in orderly fashion, not under strain. The main swing factors to watch from here are the pace of foreign demand for this new supply and whether the Fed, under Warsh, resumes balance-sheet reduction faster than private capital can absorb the resulting slack. Until one of those breaks, this looks like healthy rotation and repricing, not a warning sign.