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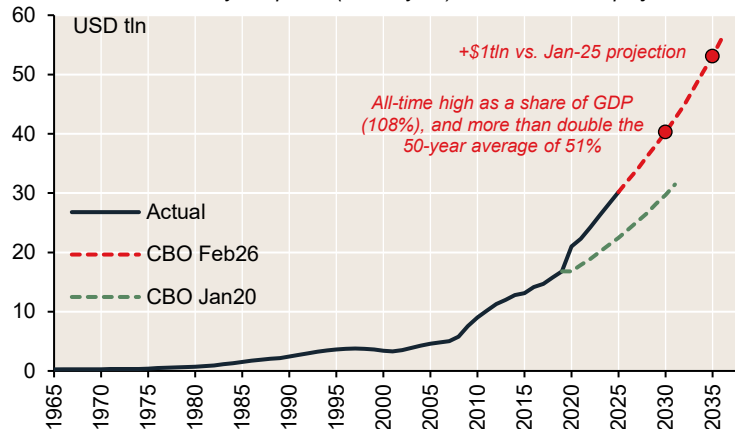
## Fiscal offsets required in the U.S. (as tariff revenues fall short)

By Ethan Currie & Taylor Schleich

This won't come as news, but the U.S. federal government is on an unsustainable fiscal path. The CBO offered up another reminder of this with the publication of their latest **Budget and Economic Outlook**. Deficits are set to remain large and steadily grow in the 2030s, pushing the debt burden even higher (Chart 1). And even though tariffs were promised to be a source of fiscal consolidation, the broader deficit / debt burden outlook has *worsened* relative to the CBO's prior (Jan-25) projections (Chart 2). Through 2035, the CBO now sees an additional \$1.4 trillion of red ink being accumulated vs the previous outlook. Tariff revenues, assuming they are sustained, could add nearly \$3.0 trillion to the bottom line over the next decade, though that impact is overshadowed by the \$4.7 trillion associated with the *One, Big, Beautiful Bill* (2025 Reconciliation) Act. Stricter immigration policy is also fiscally relevant, as the CBO estimates a budgetary impact here of \$0.5 trillion over ten years.

The consequences of a growing debt load are also evident in the CBO's outlook. Net interest expenses are set to represent a growing (and predominant) share of the total deficit (Chart 3), while the outlook for average government borrowing costs have stepped up vs prior guidance.

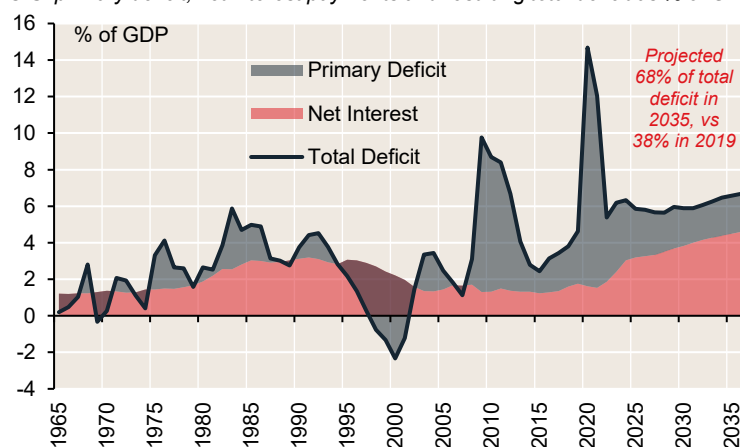
**Chart 1: Up & away goes the debt burden, outright & relative**  
U.S. federal debt held by the public (end of year)—actual vs CBO projections



Source: NBC, CBO | Note: Using 10-year projection horizons from CBO economic outlooks

**Chart 3: Interest payments dominate the deficit calculation**

U.S. primary deficit, net interest payments and resulting total deficit as % of GDP



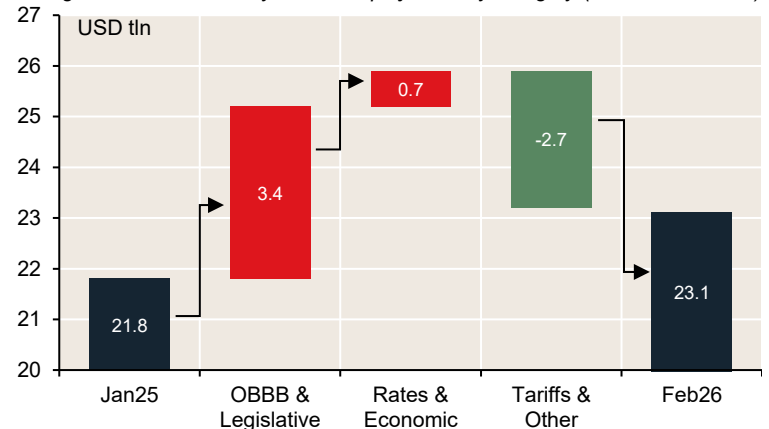
Source: NBC, CBO | Note: Actual to 2025, projected thereafter by CBO

Taken together, this suggests that the primary deficit could step down over the next decade, though we'd note these projections assume policy stability—which is far from guaranteed, especially in regard to trade. While a protectionist agenda may persist, the White House is facing increasing pressure (ahead of midterm elections) to rein in debt, costs, and tariff rates. Uncertainty about whether tariffs will remain in place following this administration's tenure also exists. While not our base case, any tariff 'dividends' paid to the U.S. consumer, perhaps in a vote-grab attempt, would also taper any positive deficit contributions from tariffs.

Against a global backdrop where rates markets are increasingly **sensitive to fiscal developments**, term premia are likely to remain sticky. There are other factors that support this assessment as well. More recently, there's been a growing focus on Federal Reserve balance sheet dynamics (which we'll explore in an upcoming *Market View*). While we're skeptical of sweeping revisions, the rhetoric alone also poses risks to longer-dated treasuries, perhaps adding to an already pressing / growing issue of government borrowing costs.

**Chart 2: Tariffs will only mitigate some fiscal fallout**

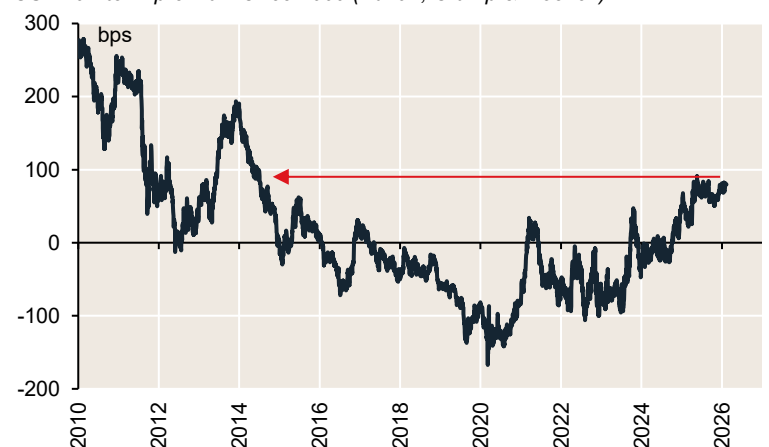
Changes to the CBO's 10-year deficit projection by category (Jan-25 vs Feb-26)



Source: NBC, CBO | Note: Red bar is projected fiscal deterioration, green is improvement

**Chart 4: All roads are leading to sustained steepness in USTs**

UST 10Y term premium since 2000 (Adrian, Crump & Moench)



Source: NBC, Bloomberg



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