

Markets  
Odd Lots

# Debt-Ceiling Drama Has Some T-Bills Trading Like Junk Bonds

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US House Speaker Kevin McCarthy, a Republican from California, center, speaks to members of the media while arriving to the US Capitol in Washington, DC, US, on Tuesday, May 23, 2023. *Photographer: Nathan Howard/Bloomberg*

By Tracy Alloway

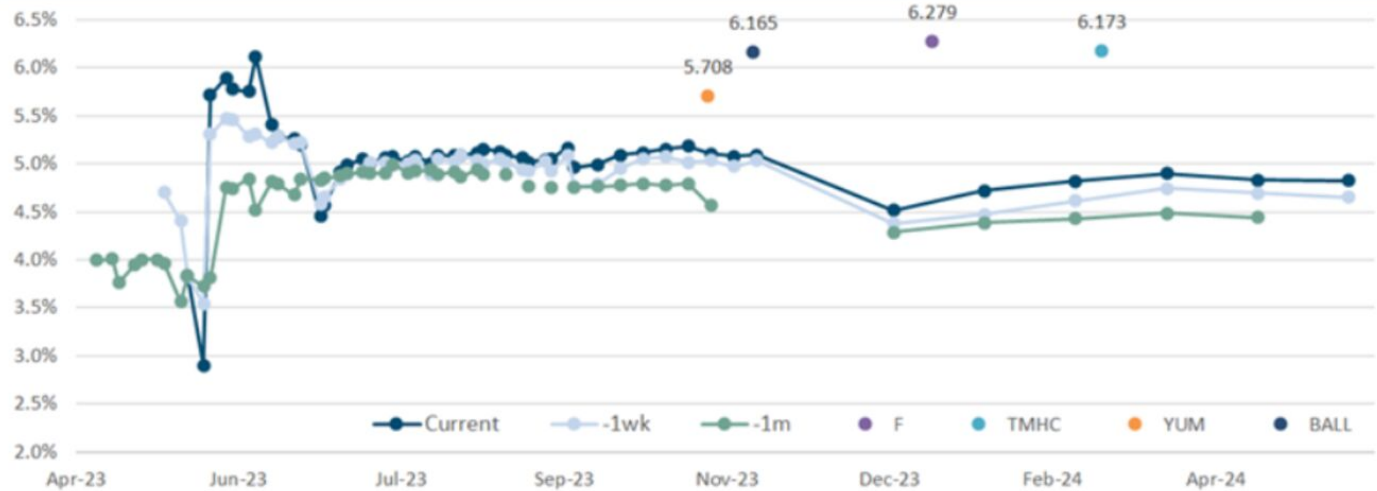
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As the US inches closer and closer to a debt ceiling debacle, some short-term government bonds are trading like junk.

T-bills maturing on June 1 – the so-called “X” or “drop dead” date at which the Treasury is expected to exhaust its borrowing capacity without an increase in the debt limit – are currently yielding more than 6%. That’s more than some corporate bonds sold by junk-rated companies.

“The least-loved T-bills have discount yields that resemble the effective yields of several short-dated high-yield bonds,” note CreditSights Inc. analysts led by Winnie Cisar. “Debt ceiling negotiations appear to be at another impasse at present as discussions have been stop-and-start for several weeks now.”

Tbill Curve at Various Dates and Select High Yield Bonds



Source: CreditSights, Bloomberg LP

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Discount yields on T-bills are similar to those currently on offer from junk-rated bonds issued by packaging company Ball Corp. and due in Nov. 15, 2023, or debt sold by homebuilder Taylor Morrison Communities Inc. due on March 1, 2024. The companies are rated BB+, firmly in junk or “speculative” status.

And while yields of T-bills and junk-rated bonds converging may be more about how remarkably low credit spreads are currently trading despite big questions over the ability of companies to withstand higher interest rates, it’s still startling to see short-term US government debt at these levels.

“At this stage the debt ceiling episode appears to be on course to be one of the worst since 2011, although it has been difficult historically to predict exactly when there will be a breakthrough in negotiations,” the CreditSights analysts said. “If we do not have a resolution by the end of the week, it seems the likelihood of negotiations coming down to the wire a la 2011 increase notable, as does perhaps the likelihood of an additional ratings downgrade.”