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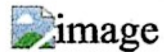

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Trump Looks Beyond Fed to Cut Borrowing Costs

BY SAM GOLDFARB

Forget the Federal Reserve. To lower borrowing costs for Americans, the Trump administration says it is going to cut spending and increase energy production.

Although President Trump continues urging the Fed to reduce short-term interest rates, Treasury Secretary Scott Bessent has suggested recently that both he and Trump are focusing less on the central bank and more on bringing down the key rate set by financial markets: the yield on the 10-year Treasury note.

The task isn't easy. A benchmark for rates on everything from mortgages to corporate bonds, the 10-year yield shifts with market and economic forces largely beyond the control of the White House. Yields on Treasurys fall when their prices rise, so any effort to lower them would either need to reduce government borrowing— thereby decreasing the supply of bonds—or make U.S. debt more appealing to investors.

Here is a look at how Trump might try to accomplish those things and what he's up against.

How to reduce yields?

The most obvious way that presidents can move Treasury yields is through fiscal policy. A smaller budget deficit means less government borrowing and a reduced supply of new Treasurys. That can push up the prices of existing bonds, driving their yields lower.

Bessent recently leaned into this idea in an interview with Bloomberg Television, arguing that the 10-year yield could decline if the Elon Musk-led Department of Government Efficiency is able to reduce government spending.

Republicans over decades have shown that "we like spending—we just wanted to raise it less, the Democrats want to raise it more," Bessent said. But, he added, "what if it actually goes down because of everything we're doing right now?"

Are there other options?

Administrations also have discretion over the types of debt they issue. To avoid putting pressure on longer-term yields, Treasury can issue more T-bills, which mature in a year or less, rather than notes and bonds that carry two- to 30-year maturities.

Bessent had previously criticized the Biden administration for relying too much on T-bills and suggested that issuance of longer-term debt might need to increase. But he took a different position in the Bloomberg interview, saying current auction sizes could be maintained "for the foreseeable future."

Finally, Bessent said that the administration could get the 10-year yield "to naturally come down" by increasing the supply of oil and gas. That, he said, would drive down energy prices and help power what he called "noninflationary growth."

Although the Fed often focuses on an inflation measure that excludes energy prices, which can be volatile, that could still help lower rates. Falling oil prices can lower costs for other goods, such as plastics made out of petrochemicals. That, in turn, could bring down Treasury yields, which are heavily influenced --by the expected path for rates.

What are the obstacles?

Big changes in Treasury yields are typically driven more by economic data and policy signals from the Fed than anything the White House or Treasury announces. But Trump's goals also face other hurdles.

In the case of the deficit, bond investors have long assumed that Trump's policies would lead to a larger, not smaller, gap between revenue and spending. That was one reason why Treasury yields climbed last fall when a Trump victory started looking more likely.

The House Budget Commit--tee approved a plan in the past week that targets tax cuts of $4.5 trillion over a decade relative to current law. It also aims for $2 trillion in spending cuts, paired with $300 billion in new spending, likely for immigration enforcement and the military.

The 10-year yield settled Friday just below 4.5%, down from around 4.8% in mid-January though still up from around 4.3% right before Trump's election win.

Some analysts are also skeptical that Trump can materially lower energy prices.

The president's advisers have privately conceded that U.S. frackers won't pump much more. Many overdrilled during the 2010s shale boom and fell into bankruptcy. Saudi Arabia, the de facto leader of the Organization of the Petroleum Exporting Countries, is also reluctant to boost global oil supplies, needing higher prices to balance its budget.

Has anyone pulled it off?

The Trump administration wouldn't be the first to try to lower interest rates by attempting to win over bond investors. President Bill Clinton's White House was famously bond-obsessed, prompting strategist James Carville's quip that he would like to be reincarnated as the bond market because "you can intimidate everybody."

Though Clinton had run for office promising a middle-class tax cut, he dropped that proposal after his win and focused more on deficit reduction, passing a major tax increase in his first year with the aim of boosting growth by pulling down bond yields.

Overall, the strategy seemed to work for Clinton. Yields fell substantially in 1993. They shot back up the following year when the Fed raised rates aggressively but then subsided again afterward.

Meanwhile, economic growth surged, Clinton won a second term and the government produced a rare budget surplus.

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