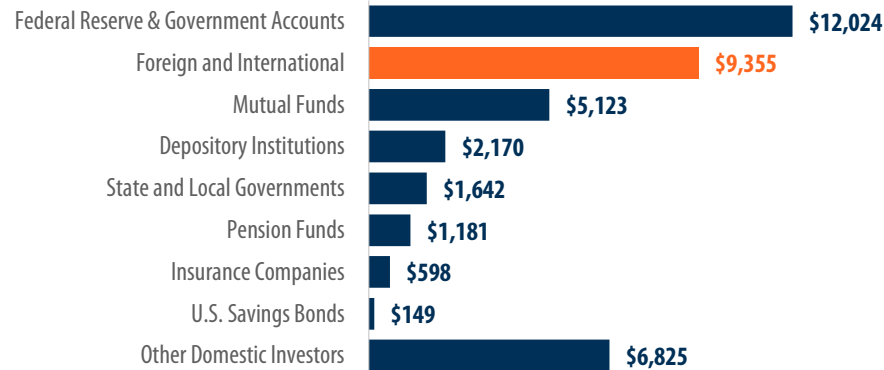


Who Finances the Federal Debt?

With U.S. Treasury yields reaching their highest levels since 2002 and the federal government showing little sign of paring back spending, questions about who finances the federal debt have come back into focus. Many investors are concerned that traditional buyers, particularly foreign governments, are backing out of the Treasury market. While some are reducing their exposure, it is hardly a recent development and the broader story is more nuanced than the headlines suggest. In fact, foreign holdings of Treasuries are near record highs. In this week's "Three on Thursday," we examine the U.S. Treasury market, particularly how the foreign investor base is evolving and what it could mean going forward. Foreign demand for U.S. Treasuries has not disappeared; it is simply coming from different sources than it did in the past. To learn more, take a look at the three charts below.

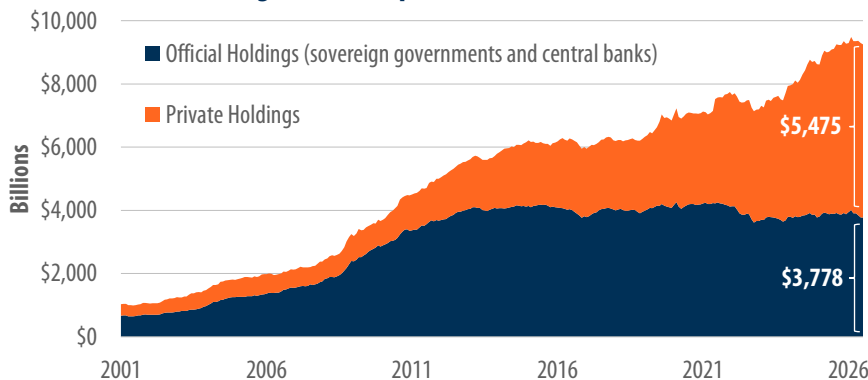
U.S. Federal Debt Ownership by Category (in Billions)



Source: U.S. Treasury Department, First Trust Advisors. Most recent data as of Q1 2026. Other domestic investors include individuals, government-sponsored enterprises, brokers and dealers, bank personal trusts and estates, corporate and non-corporate businesses, and other investors.

It may come as a surprise that the U.S. government itself is the largest owner of the federal debt, accounting for about 30% of all outstanding obligations. This is broken down into debt owned by the Federal Reserve and intragovernmental holdings, which is debt that one part of the government owes to another. This happens when the Treasury borrows from government trust funds (like Social Security) and then issues an IOU (which earns interest like a real bond) for the trust fund recipients. This is a responsibility of the government, and is counted as government debt, even though the government does not issue these securities to the public. Just under a quarter of federal debt is held by foreign entities (both sovereign institutions and private investors), making them the second largest group. The remaining 45% is spread across a broad array of domestic entities such as mutual funds, banks, state and local governments, pension funds, and insurance companies.

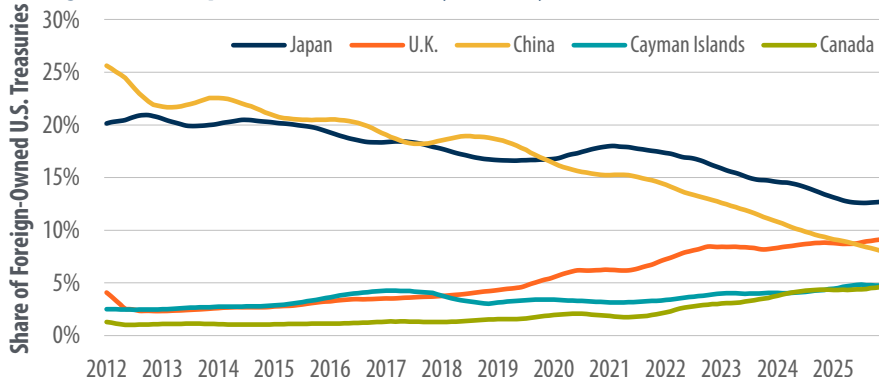
Private vs Official Foreign Ownership of U.S. Treasuries



Source: Treasury Department, First Trust Advisors. Monthly data Jan 2001 - Jul 2026.

Foreign ownership of U.S. debt sits just below its record high from earlier this year, but the composition has changed considerably in the last decade. Foreign governments and central banks, which primarily hold Treasuries as foreign exchange reserves, have trimmed their holdings by a net \$235 billion since 2016, deterred by geopolitical risks (such as when the U.S. froze Russian reserves after its invasion of Ukraine) and concerns over its long-term fiscal outlook. Private investors have looked past these risks to take advantage of higher yields, adding an incredible \$3.2 trillion in Treasury holdings since 2016. However, unless the federal government reins in persistent deficits and slows borrowing, future growth in foreign Treasury demand shouldn't be assumed, from either private or public purchasers.

Foreign Ownership of U.S. Treasuries by Country



Source: Treasury Department, First Trust Advisors. Most recent monthly data Jan 2012 - Dec 2025. Shares represent trailing twelve-month average of total foreign-owned U.S. Treasuries outstanding.

The geographic makeup of foreign ownership has also broadened significantly, with Japan and China's combined share falling from nearly 50% in 2012 to just 20.7% by the end of 2025. While Japan's holdings have remained relatively stable, China has cut its Treasury holdings in half from their peak of \$1.3 trillion in 2013 to just \$684 billion by the end of 2025. As foreign Treasury demand has shifted from sovereign institutions toward private investors, the U.K. has become the second largest foreign holder of U.S. debt. London's role as a global financial center creates a "custodial bias," where Treasuries owned by investors around the world are held through U.K. financial institutions. In fact, the Federal Reserve estimates that roughly a quarter of all Treasury transactions involve the U.K. The Cayman Islands, Luxembourg, Belgium, and Canada, which are all major investment or custody hubs, have also seen their foreign Treasury holdings rise over the past decade.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.