

# The Era of Fiscal Dominance

When governments cannot afford higher rates, central banks will stop setting them.

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# Fiscal Dominance

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\$100T+

Global sovereign  
debt outstanding

7 / 7

G7 nations above  
60% debt/GDP

199%

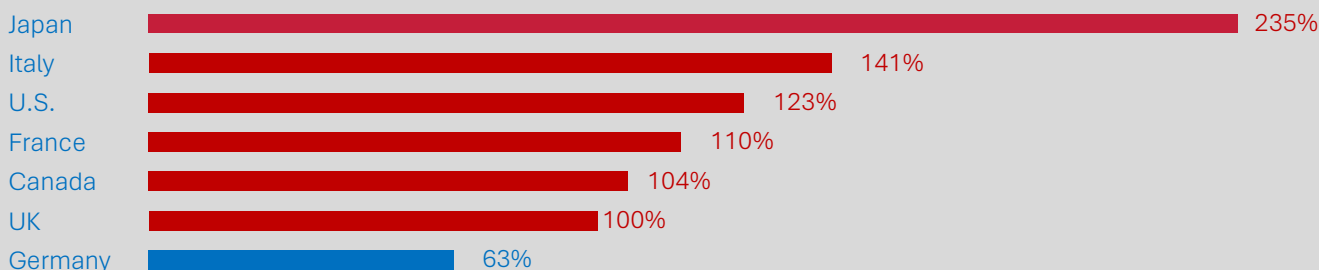
Japan govt  
debt/GDP

\$1.1T

U.S. interest  
payments, 2025

## G7 GOVERNMENT DEBT / GDP

2024 IMF estimates · red zone = above 90%



## INTEREST PAYMENTS AS % OF FEDERAL REVENUE



## THE MECHANISM

- The solvency constraint. Each 100bps rate rise adds to annual interest expense -- consuming budgets. Hiking becomes fiscally untenable before it becomes economically effective.
- Yield curve control. Japan's YCC was explicit. In the U.S. and Europe, it is implicit: central banks cap yields at stress moments knowing sovereign refinancing depends on it. Policy independence is theoretical.
- Interest expense consumes rising revenue share, governments attempt to cut spending and raise taxes - slowing growth, worsening the debt ratio, requiring more inflation.

## ASSET CLASS CONSEQUENCES

- Nominal bonds lose. Suppressed yields below realized inflation guarantee negative real returns. Duration risk is repriced. The 60/40 carries hidden sovereign credit exposure.
- Real assets reprice. When fiat purchasing power erodes, hard assets absorb the overhang. Farmland, infrastructure, and commodities with genuine scarcity characteristics outperform by structural design, not by accident.
- Private equity is not immune. Highly levered vintages face the sharpest NAV pressure as debt costs stay elevated while exit multiples compress. Higher-for-longer rates creates challenging refinancing conditions.

"Fiscal dominance is not a tail risk. Portfolios built on long-term independent monetary policy may be misallocated."



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