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Stablecoins as Modern War Bonds: A New Anchor for the Treasury Market Amid a Fragmenting Dollar Order



By Joshua Barone | Oct 16, 2025

From Patriotism to Protocol: The Rewiring of Treasury Demand

For nearly a century, the U.S. Treasury market has been the foundation of global finance — the anchor of the dollar system and the benchmark for every other interest rate worldwide. Its liquidity and perceived safety are what make the dollar the world's reserve currency.

But the once-stable demand for Treasuries is eroding. The Federal Reserve is shrinking its balance sheet. Foreign central banks are diversifying reserves. U.S. banks, constrained by regulation and portfolio losses, are pulling back. Meanwhile, Washington's borrowing needs are unprecedented.

The math is sobering:

- The federal deficit exceeds **\$2 trillion** annually.
- Interest expense has surpassed **\$1 trillion** per year.
- The Fed's balance sheet runoff drains another **\$60–90 billion monthly** from Treasury demand.

Into this vacuum has stepped an unlikely participant — not a government, not a central bank, but a *technology*: **stablecoins**.

At the June 2025 Money Fund Symposium in Boston, Jie-H Hung of State Global Advisors summarized the shift:

“Roughly 80% of the stablecoin ecosystem is now allocated to Treasury bills or repos—nearly \$200 billion in total. Stablecoins are expanding faster than Treasury supply.”

That quiet observation might prove to be the most consequential statement in modern monetary finance.

Quantifying the Digital Bid

As of mid-2025, stablecoins represent a meaningful Treasury investor base:

- **Tether (USDT)**: roughly **\$127 billion** in Treasuries
- **Circle (USDC)**: another **\$35 billion**

Together, they hold **\$160 billion** of U.S. debt—more than many sovereign nations.

According to research by the **Bank for International Settlements (BIS)**, stablecoin inflows of about \$3.5 billion (roughly a 2-standard deviation inflow) lowered three-month U.S. Treasury bill yields by approximately 2 to 2.5 basis points within 10 days. Conversely, stablecoin outflows have a larger asymmetric effect, raising the same yields by 6 to 8 basis points over the same period. This dynamic reflects the market-moving liquidity provided by stablecoin flows, with inflows compressing yields modestly and outflows causing larger yield increases due to forced asset sales during redemption pressure. These stablecoin holdings are predominantly backed by U.S. Treasury bills, making stablecoins significant players in short-term debt markets and impacting Treasury market dynamics and monetary policy transmission.

Treasury Secretary Scott Bessent recently commented:

“A thriving stablecoin ecosystem will drive private-sector demand for Treasuries that back those coins. This new channel of demand can lower government borrowing costs and reinforce the dollar's role.”

In other words, the blockchain is quietly underwriting the national debt.

Mechanics Over Mood: Code Enforces the Bid

Unlike discretionary investors, stablecoin issuers don't buy Treasuries because they want to. They buy because they *must*.

Each token represents one dollar of collateral. To issue new coins, they must acquire short-term Treasuries or repos of equivalent value.

If global demand for digital dollars rises by \$10 billion, issuers must purchase about \$10 billion of Treasuries — automatically. The process is mechanical, apolitical, and uncorrelated with market sentiment.

One asset manager at the Boston symposium put it succinctly:

“Stablecoin issuance doesn't care what Powell says — it cares about demand for dollars.”

That's the key distinction: stablecoins transform liquidity demand into Treasury demand without the emotional or cyclical baggage of human behavior.

Algorithmic War Bonds: From Civic Duty to Code

During World War II, American households lined up to buy **war bonds** — not for yield, but for duty. Patriotic posters featuring Rosie the Riveter and **Captain America** urged citizens to “Buy Bonds” to support the war effort. Those purchases anchored government finance through moral conviction.

Today, the same function is being performed — only by **code**.

In the 1940s, Captain America's shield symbolized strength, unity, and sacrifice. In 2025, that shield might as well be the **U.S. Treasury bill** — the digital bulwark behind every stablecoin in circulation.

Stablecoins are the modern war bonds of a fragmented world: an algorithmic funding mechanism that channels global liquidity into U.S. debt not through civic virtue, but through collateral protocols. Participation is not voluntary; it's mathematical.

Captain America once said, *“I'm just a kid from Brooklyn.”*

Today, the global financial system might say, *“I'm just a code from Ethereum.”*

Both, in their own way, serve the flag.

The GENIUS Act: Institutionalizing the Algorithmic Bid

Recognizing this structural shift, policymakers have begun to consider formal integration of stablecoin demand into Treasury financing. Enter the **GENIUS Act** — the *Global Enhancements for National and Institutional US-Dollar Stability Act*, introduced in early 2025.

The **GENIUS Act** aims to treat regulated stablecoin issuers as special-purpose liquidity conduits within the U.S. monetary framework. Its provisions include:

1. **Direct access to the Treasury General Account (TGA)** for settlement of stablecoin reserves.
2. **Mandatory reserve composition** — 100% in short-term Treasuries or reverse repos.
3. **Real-time reporting** of collateral via blockchain verification nodes supervised by the Office of Financial Research.
4. **Tax incentives** for Treasury holdings above specified thresholds.

In short, the GENIUS Act formalizes what markets have already built: a self-reinforcing demand engine for Treasuries embedded within digital finance.

Supporters argue that the Act would institutionalize stablecoins as *programmable money market funds*, extending U.S. monetary dominance while lowering borrowing costs. Critics warn that it could blur the line between private innovation and sovereign financing — effectively outsourcing parts of the national debt to the crypto sector.

From a macroeconomic perspective, the GENIUS Act represents both **genius and risk**.

It's genius because it anchors Treasury demand in global digital liquidity, ensuring persistent absorption of issuance even amid declining foreign participation.

It's risky because it formalizes reliance on private issuers — some offshore, some opaque — as critical pillars of sovereign funding.

The GENIUS Act may indeed stabilize Treasury demand — but it also codifies the dependency. We are institutionalizing the algorithm before we've regulated its operator.

A Timely Structural Shift

This algorithmic demand arrives at a crucial moment. With the Fed reducing its holdings and foreign central banks selling Treasuries, the supply/demand imbalance has widened. The Treasury is forced to auction record volumes of bills, notes, and bonds amid rising term premiums and investor fatigue.

Stablecoins, by contrast, provide **inelastic demand** for short-term securities — the very instruments under the most pressure.

According to the Treasury Borrowing Advisory Committee, bills now account for nearly **26% of total debt outstanding**, up from 18% in 2021. That shift reflects the government's growing reliance on short-term financing. Stablecoins are helping absorb that supply.

Bessent framed it as a pragmatic symbiosis:

“Stablecoins expand the dollar's reach while increasing Treasury demand. It's a self-reinforcing mechanism.”

Private Seigniorage: The New Carry Trade

Stablecoin issuers enjoy a lucrative privilege: they earn interest on Treasuries, but pay nothing on the tokens they issue.

Tether's Q2 2025 report revealed **\$4.9 billion in quarterly interest income** — annualized, that's nearly \$20 billion in passive revenue. Circle's figures are smaller but directionally similar.

This model is **private seigniorage** — the profit from creating a dollar-like instrument and investing the reserves. Historically, this was a function of sovereign privilege. Today, it's been privatized and tokenized.

The global dollar system has effectively outsourced part of its monetary plumbing to fintech firms that collect yield from Treasury collateral — a 21st-century **carry trade** backed by code.

The GENIUS Act tacitly legitimizes this model. By requiring full Treasury backing, it converts private profit into public utility — a yield engine that also serves the country's financing needs.

Policy Implications: Unregulated Stability?

This new structure stabilizes Treasury demand but introduces new systemic risks.

If stablecoins represent \$200–\$300 billion in Treasuries, a shock to their confidence could unleash **forced selling**. A loss of trust — whether regulatory, technological, or reputational — could ripple across funding markets.

Moreover, the U.S. government is increasingly reliant on **private, offshore entities** for its debt absorption. That's a fragile arrangement.

The proposed **U.S. Stablecoin TRUST Act** offers a framework: federally chartered issuers, audited reserves, and direct oversight. Properly executed, it could legitimize this new class of buyers and tether (pun intended) them to U.S. financial stability. Overregulation, however, risks driving these flows abroad — undermining U.S. influence over its own debt base.

De-Dollarization Meets Digital Re-Dollarization

While BRICS nations push to reduce dollar dependency, the private sector is moving in the opposite direction.

Stablecoins — nearly all backed by U.S. Treasuries — are spreading dollar usage faster than any formal trade agreement ever did. In regions plagued by inflation and capital controls, from Argentina to Nigeria, stablecoins have become de facto savings vehicles.

According to Chainalysis, dollar-backed stablecoins now account for **90% of crypto transaction volume** in emerging markets. That's digital dollarization from the bottom up.

In short: while governments diversify away from Treasuries, **individuals and institutions are embracing them** — indirectly, through stablecoins. The same assets central banks are selling are being absorbed by crypto issuers—at scale.

Conclusion: Code as Civic Finance

Stablecoins are the quiet stabilizers of the Treasury market — digital war bonds for a digital age. They convert global liquidity into automatic Treasury demand, lowering borrowing costs and reinforcing the dollar's reach.

The **GENIUS Act** seeks to formalize this symbiosis — binding blockchain technology to sovereign finance. It's an ingenious, if uneasy, partnership between fiscal necessity and algorithmic precision.

But this mechanism, however elegant, cannot substitute for **fiscal discipline**. Code can enforce collateralization; it cannot enforce prudence.

Even Captain America's shield, ultimately, depends on the character of the one who wields it.

As Secretary Bessent recently concluded:

“Stablecoins are no longer a side story in digital finance. They're becoming part of America's financial architecture.”

In a fragmented world, that architecture is increasingly built not on trust, but on code — and for now, that **code** still speaks in dollars.

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