Mizuho Brief: USTs

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High Bar for US Fiscal (Consolidation) Conviction

"Anyone who lives within their means suffers from a lack of imagination" – **Oscar Wilde**

In a Nutshell:

- Impending **US fiscal consolidation plans risks being a damp squib**. *Even if the Treasury recovers $200bn-$400bn* may **merely temper UST yields**.
- Focus on **recovering tariff revenue forgone** (from Supreme Court strike down) may **underwhelm**, even compound economic/fiscal worries – *as with US-Canada now*.
- And **further revenue-boosting initiatives** are **limited**, *partly worsened to mid-terms.*
- Most conspicuously, *aversion to rollback "Big Beautiful Bill" tax cuts undermines credibility/commitment.*
- To be sure, **Bessent may attempt strategic expenditure cuts**. ***But*** binding limitation suggest *subpar responses, not a convincing solution*.
- Above all, *Iran* and **wider geo-political aggression/conflicts *conspiring with the global race for AI supremacy*** **warn of structural fiscal deterioration** *exacerbated by higher rates* (amid cost shocks) *that trigger worries of "doom loop".*
- Meanwhile, **acutely polarized US politics raise the bar** *for committed bi-partisan endorsement* required for any **convincing fiscal consolidation**.
- Market Implication: Skeptical markets raise the bar for fiscal consolidation, *measuring yield pullback* (to 10-20bp), with long-end especially vulnerable to "Sell America" risks.

- The impending announcement/details on **US fiscal consolidation plans risk being** a subpar response rather than a convincing solution.
- $200-400bn Baseline: To be sure, the **US Treasury might conceivably set out to demonstrate** plans for **deficit reductions of some $200-400bn**.
- To (at least) Neutralize CBO Downgrade: This, likely to be **in response to the CBO bumping up deficit by ~$200bn** *in August** (to $2.1trln from earlier $1.9trln baseline).
    - **Market implication**: Imaginably, *the bar for quantity and quality of fiscal consolidation is raised by market skepticism,* with offsetting the CBO's $200bn downgrade the bare minimum.

- "Liberation Day" Shortfall: Notably, the CBO's wider deficit projection was predominantly **attributed to a shortfall in tariffs** from the *Supreme Court striking down "Liberation Day" tariffs as illegal.*
- Inciting Fresh Tariff Aggression: Hence, **reinstating tariff revenues might be considered** by this Administration to be the "**low-hanging fruit"** here – *explaining the Canada tariff escalation*.
- Top Line Optimism: But **tariff aggression alone may not suffice**. ***Requiring optimistic revenue projections*** tied back to a "booming economy", AI, etc.
- Convenient, Not Convincing: These *convenient responses are however not convincing* as **income-based tax collections already stretched,** and **subject to softening jobs/confidence**.
- "Big Beautiful Bill" Overhang: Ultimately, **acute political aversion/resistance to reverse the "Big Beautiful Bill" tax cuts** (thereby forgoing recurring revenues) **challenges credibility**.
- Belt Tightening: And so, **Bessent might want to impress upon markets** some degree of **expenditure cuts**.

- Hobbled by Politics: However, these *might have limited room to run* given the **sensitivities of cutting Major social programs** (Social Security, Medicare, Medicaid) **ahead of mid-terms**.
- Partly Exhausted: What's more, large reductions in Education and International Assistance programs are already exploited.
- Limited "Left" Manoeuvres: Imaginably, some cuts to Blue State programs and other "left-related" programs might be announced – but these may struggle to be in the hundreds of billions.
- The Iran Gorilla: But the **600-pound Gorilla in the room is Iran and** , which threatens contingent fiscal vulnerabilities whether;
    - i. with regards to *any subsequent increases in Defense spending* and/or;
    - ii. *economic blowback from "Economic D-Day sanctions"* hitting US top line via shocks to growth.

    - **Market implication**: To begin with, *measured 10-20bp slippage in UST yields* might be *up for grabs* but contingent on fiscal consolidation "sweet spot".
    - **Market implication**: But the *initial pullback in yields,* but *risks being at least partially faded* as doubts overshadow plans and unpredictability prevails.
    - **Market implication**: The resultant *"risk premium" left intact could be skewed (more disadvantageous) to the long-end* – especially as secondary tariff risks "Sell America" dynamics.

- Bipartisan Buy-in the Higher Bar: To be sure, *committed fiscal consolidation plans* with **broad bi-partisan endorsement** across the aisle **will help to rein in yields more convincingly**. ***But* acutely polarized politics raises this bar**.
- Structural (Geopolitical-AI) Fiscal Woes: Crucially, **adversarial geopolitics**** conspiring with **the global race for AI supremacy** exacerbate structural fiscal deterioration** – as the *ability to convincingly establish and adhere to fiscal discipline is subject to considerable doubt.*
- "Doom Loop" Trigger***: Especially as higher rates in response to cost-shocks trigger worries of (rates-fiscal) deterioration "doom spiral" dynamics.

* This was in the July Monthly Budget Review published on 10th August. [PDF Link: July 2026 MBR]

** Both requiring heavy spending – with AI's strategic prominence for global dominance likely entailing heavy state subsidy/involvement.

*** This "doom loop" is a reference to an inextricable debt spiral once a critical threshold is crossed, whereby interest (on debt) exceeding growth rates destroys the ability to "grow out of debt" amid crippling "crowding out".

Budget Totals, October–July

Billions of Dollars

	Actual, FY 2025	Preliminary, FY 2026	Estimated Change	Estimated Change With Adjustments for Timing Shifts in Outlays[a]: Billions of Dollars	Percent
Receipts	4,347	4,485	139	139	3
Outlays	5,975	6,283	308	209	4
Deficit (−)	−1,629	−1,798	−169	−71	4

Data sources: Congressional Budget Office; Department of the Treasury. Based on the *Monthly Treasury Statement* for June 2026 and the *Daily Treasury Statements* for July 2026.

FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a holiday or weekend.

Based on information available through the end of July, CBO estimates that the fiscal year 2026 deficit will be $2.1 trillion—$200 billion more than the $1.9 trillion deficit projection that CBO published on February 11, 2026.[1] CBO expects 2026 outlays to be close to the February baseline amounts. Revenues, by contrast, are anticipated to be about $200 billion below the February projections, mostly because of smaller-than-expected collections of tariff duties—a result of a Supreme Court ruling handed down after CBO's baseline was released.

MONTHLY BUDGET REVIEW FOR JULY 2026 AUGUST 10, 2026

Table 3.

Outlays, October–July

Billions of Dollars

Major Program or Category	Actual, FY 2025	Preliminary, FY 2026	Estimated Change	Estimated Change With Adjustments for Timing Shifts in Outlays[a]: Billions of Dollars	Percent
Social Security Benefits	1,303	1,373	70	70	5
Medicare[b]	820	952	132	66	8
Medicaid	553	598	45	45	8
Subtotal, Largest Mandatory Spending Programs	**2,676**	**2,923**	**247**	**181**	**7**
Department of Education	131	52	−79	−79	−60
Department of Veterans Affairs	310	360	51	34	11
Environmental Protection Agency	33	14	−20	−20	−59
Department of Housing and Urban Development	40	58	17	17	43
U.S. Coronavirus Refundable Credits	17	5	−12	−12	−73
International Assistance Programs	27	17	−10	−10	−36
Small Business Administration	2	12	10	10	c
Department of Commerce	21	12	−9	−9	−42
DoD—Military[d]	719	763	44	39	5
Net Interest on the Public Debt	846	963	117	117	14
Other	1,153	1,105	−48	−60	−5
Total	**5,975**	**6,283**	**308**	**209**	**4**

Data sources: Congressional Budget Office; Department of the Treasury.

DoD = Department of Defense; FY = fiscal year.

a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a holiday or weekend. Outlays excluding the effects of the timing shifts would have been $6,184 billion in fiscal year 2026.

b. Medicare outlays are net of offsetting receipts.

c. Outlays of the Small Business Administration were about six times the amount spent during the same period in fiscal year 2025.

d. Excludes a small amount of spending by DoD on civil programs.