

US Treasuries - Investment or War Bonds?

Adil Aboobakar, 4 February 2024, 121 days into the War on Gaza

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Let me take this one step at a time.

What are US Treasuries?

US Treasuries are government debt instruments issued by the United States Department of the Treasury to finance government spending in addition to taxation. Whenever taxation and other receipts are not enough to cover government spending, termed a budget deficit, the US Department of the Treasury issues US Treasuries to raise funds to cover that deficit.

In investment management, US Treasuries are considered one of the safest investments in the world. The yield on Treasury securities is called the risk-free rate because it is assumed that the US Government cannot default on its debt obligations.

Buying US Treasuries could be construed as an investment decision or a part of monetary policy. Although at the same time, we must remain grounded in the fact that when an investor purchases US Treasuries, it is lending money to the US Federal Government.

So how does the US Federal Government use this money?

Funds raised from the sales of US Treasuries are spent on a variety of goods, programs, and services to support the American public, such as Social Security, Education, Training, Transportation, so on and so forth.

Within that budget, the US Federal Government also provides billions of dollars of military aid to Israel and extends awards to defence contractors supplying arms to Israel.

Now, the spending of the US Government is publicly available on its website: www.usaspending.gov.^[1]

An extract of recent awards reveals the following:

- RTX Corporation, manufacturer of missiles and other arms, supplied to Israel: \$7 billion,

1. Official website of the United States Government, <https://www.usaspending.gov>, accessed on 2 February 2024.

- General Dynamics, manufacturer of combat systems, supplied to Israel: \$ 4 billion,
- Lockheed Martin, manufacturer of the F-35s that flew over Gaza: \$18.2 billion.

To name just a few.

Therefore, when an investor is purchasing US Treasuries, the money is being used to finance these awards extended to defence contractors which supply arms to Israel.

It is much easier to understand this if one is to look at this transaction for what it is, without being clouded by the preconception of a risk-free investment necessary for investment management or monetary policy.

Now who purchases US Treasuries?

Retail investors (natural people), banks, financial institutions, mutual and exchange-traded funds, pension funds, governments, sovereign wealth funds, and other institutional investors from around the world.

Now, the United States is a \$25 trillion economy,^[2] with a public debt of \$34 trillion ^[3], out of which \$7.8 trillion ^[4] (as of November 2023) have been lent by the rest of the world, through the purchase of US Treasuries.

Let's take a step back.

If you are urging the US Government to agree to a humanitarian ceasefire, would you, at the same time, lend money to the US government so that it can fund the fire?

If there is any reason left in this world, I guess the answer is: NO.

121 countries voted for ceasefire on Oct 27, 2023 – UN resolution ES-10/21. Out of these 121 countries, funds from 36 countries hold \$3.5 trillion of US Treasuries (as of November 2023) and purchased a net amount of \$114 billion in the month of November 2023 – while the war was raging on the civilian population in Gaza and the West Bank.

2. Gross Domestic Product, U.S. Bureau of Economic Analysis, <https://www.bea.gov/data/gdp>, accessed on 2 February 2024.

3. US National Debt, <https://www.usdebtclock.org/#>, accessed on 2 February 2024.

4. US Department of the Treasury, <https://home.treasury.gov/data/treasury-international-capital-tic-system-home-page/tic-forms-instructions/securities-b-portfolio-holdings-of-us-and-foreign-securities>, accessed on 2 February 2024.

Now, these funds can be from Official (that is government) and non-Official (that is private) sources. Non-Official would include banks, investment vehicles, pension funds, and similar institutional investors, whose respective businesses depend on the contributions of its clients – whether it be in the form of deposits (in the case of banks) or investments (in the case of investment vehicles, pension funds, or other such contracts).

How is it possible then that countries having voted for ceasefire are allowing funds from their respective countries to fund not only the one government standing in the way of that ceasefire, but also funding the fire?

Maybe there is indeed no reason left in this world.

The “Disconnect”?

My aim is not to defame, but at analysis. To point at a possible “disconnect” in the world. All information provided here is from public sources.

Now, South Africa having voted for ceasefire on Oct 27, 2023, also filed a case against Israel at the International Court of Justice (ICJ) accusing Israel of crimes of genocide against Palestinians in Gaza.

Concurrently, Investec, an Anglo-South African international banking and wealth management group, holds sizeable amounts of North American Treasuries (as disclosed under the Sovereign debt securities section in its Notes to Financial Statements).

Sanlam, a large South African financial services group, holds US Treasury securities through its different unit trusts funds, which oftentimes are also domiciled in Ireland.

As of November 2023, funds from South Africa held \$16 billion in US Treasuries.

The Irish Government has also commendably called for ceasefire and urged other EU countries to follow suit. Likewise, as of November 2023, funds from Ireland held \$315 billion in US Treasuries and purchased \$15 billion in that month. You may find funds such as those of SEB Life International, Fidelity, Mercer, to name a few, who hold US Treasuries. A quick visualisation of the respective fund factsheets should reveal precise data.

Funds from Mauritius are also part of this consortium - \$1.5 billion as of November 2023, having bought \$95 million in that month.

Surely, these funds invest in US Treasuries as part of their investment management strategies. But they are also, factually, lending to the US Federal Government.

So, I had multiple conversations with asset managers in Mauritius. They do not seem to make the connection, and if they do make the connection, they shrink away, as would a snail sprayed with salt.

It's interesting, but at the same time, gut-churning scary, to observe people, educated people, still imprisoned in their minds. Instead of using their education, a result of the sacrifice of their ancestors, to empower themselves and the world, they use it to be better corporate sheep.

Why and where is the "disconnect"?

A Curious Observation

Zakaat is one of the 5 pillars of Islam, requiring all Muslims to donate 2.5% of savings and wealth beyond a certain threshold, called Nisab (construed as enough to maintain a decent living).

A 2019 study conducted by the World Bank and the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB) estimated global Zakaat funds reached \$550 billion to \$600 billion per year. ^[5]

Now if 2.5% equals to \$600 billion, what is 100%? That is, what is the "excess" wealth?

\$600 billion divided by 2.5% is \$24 trillion, larger than the US economy.

So, where is that accumulated wealth, at least the liquid portion of it, invested?

Are they invested in US Treasuries? If so, why would Muslims all over the world be financing the US Government to extend awards to defence contractors which supply arms to Israel?

An Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) Question

In light of the ICJ ruling on January 26, 2024, affirming that some acts and omissions committed by Israel appear to be capable of falling within the provisions of the Genocide convention, and the thousands of pictures, videos, and witness accounts testifying to the violence against a civilian population and destruction of vital infrastructures, my next question is very obvious.

The definition of terrorism is the unlawful use of violence and intimidation, especially against civilians, in the pursuit of political aims.

5. World Zakat Forum: Optimizing funds to reduce poverty, <https://www.aa.com.tr/en/middle-east/world-zakat-forum-optimizing-funds-to-reduce-poverty/1640107>, accessed on 2 February 2024.

Therefore, is financing the weapons used to support the military assault on Gaza and the West Bank, not the financing of terrorism?

Anything but “Normal” Times

In otherwise “normal” times, purchasing US Treasuries could be construed as solely an investment decision.

However, given these exceptional times and the evidence provided above as to how the funds raised from US Treasuries are being utilised, can it solely be an investment decision?

What can People and Governments in Favour of Ceasefire do?

At a personal level, a client of a financial institution can always check how their banks, pension plans, mutuals funds, and other possible investment vehicles are investing its money. After all, as suggested above, the business model of these financial institutions rely on the financial contribution of their clients. Supply follows demand. Therefore, if the demand is aligned with ceasefire, the supply should equally follow.

At government level, the question is perhaps more sensitive. As described, investment in US Treasuries can be from Official and Non-Official sources, i.e., private funds. Respective governments may have discretion over their own funds, and logically should align their flows with their call for a ceasefire.

Now, when it comes to the private funds, governments do not have that discretion.

Unless private transactions are regulated by legislation, as is often the case to achieve an intended outcome in the interest of the larger community at the expense of freedom, private funds flows follow their mandates even if these mandates are pointing towards funding the fire.

Therefore, if these private funds cannot align with the will of their respective governments to achieve a humanitarian ceasefire, should the financial regulatory framework not direct these fund managers, as needed through legislation, to stop funding a third-party government which not only stands in the way of a ceasefire, but is also funding the fire?

Conclusion – Are We All Financing this War?

Very likely. Pretty much the whole world is financing this war. This is happening at a personal level, i.e., workers contributing to “innocent” pension plans as

well as at country level as governments are not calling on their financial regulatory frameworks to align with their calls to ceasefire.

US Treasuries are being purchased as investment decisions or part of monetary policy and financing the defence contractors which supply arms to the Israeli government – the government which is perpetuating a war having resulted in a death toll of 26,000, including women and children, and counting, along with massive infrastructural destruction.

Now... what is your view?

Is purchasing US Treasuries solely an investment decision necessary for investment management and monetary policy or is it funding a war on a civilian population?

Red Pill.../...Blue Pill?

Source of US Treasury holdings:

Portfolio Holdings of U.S. and Foreign Securities, [home.treasury.gov](https://www.treasury.gov), January 2024