UPWARD INTEREST RATE PRESSURES AND RISING BORROWING DEMANDS

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Tech Sector Borrowing and Government Competition

The technology sector has begun dramatically increasing its borrowing, leading to direct competition with the US government and other debt issuers for access to borrowing capacity. This dynamic is reshaping credit markets and has significant implications for broader economic conditions.

Magnitude of New Debt Issuance

The scale of new debt being issued is unprecedented. Technology companies alone are responsible for more than $500 billion in new debt so far this year. In addition, there is at least $2.4 trillion in off-balance-sheet obligations, further amplifying the overall demand for credit.

Impact of Rising Interest Rates on the Federal Deficit

Rising market rates, along with higher debt levels have increased the federal government's debt service by an estimated $130 billion in 2026; an increase of 13% year-over-year. Moving forward, an increase of 50 basis points in issuance rates translates to a $200 billion rise in the federal deficit. This demonstrates the sensitivity of government finances to changes in interest rates.

Market Forces Driving Higher Rates

The increasing need for borrowing by both the government and technology companies is expected to drive market interest rates higher, regardless of the intentions or actions of the U.S. Treasury or the current administration. The sheer demand for capital from these major borrowers exerts upward pressure on the cost of borrowing across the entire economy.

Recent Developments This Year

In 2026, several trends have become increasingly prominent:

- **AI Spending:** The rapid expansion and spending on artificial intelligence infrastructure are significant drivers of increased borrowing in the technology sector.
- **Interest Rates:** The combined borrowing needs of the tech industry and the government are contributing to upward pressure on interest rates.
- **Government Borrowing Costs:** Higher rates directly increase the cost for the government to service its debt, which in turn impacts the deficit.

- **Corporate Borrowing Costs:** The competitive demand for credit also raises the cost of borrowing for corporations beyond the tech sector.

Why Higher Rates Are Inevitable

Higher interest rates are on the horizon. This outcome can be explained by the fundamental law of supply and demand: when demand for a resource exceeds its supply, the price—in this case, the interest rate—must rise. This principle applies to money and credit just as it does to any other commodity. In the U.S. economy, credit demand stems from households, businesses, state and local governments, and the federal government. Of the $77 trillion of total debt in the U.S., households account for $20 trillion and have maintained a modest growth rate of around 3% per year, which is not a primary factor in driving up rates.

However, the collision between the urgent demand for credit to build AI infrastructure and the federal government's ongoing borrowing needs is causing a pronounced upward pressure on interest rates. This trend is expected to continue, largely independent of any decisions made by the Federal Open Market Committee (FOMC) in the near future.

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