

FT Alphaville Capital markets

Could Europe really leverage its \$12.6tn pile of US assets?

NILPing an outlandish idea in the bud



Do you realise how angry Scandinavians have to be to demonstrate outside in January? © Bloomberg

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The latest twist in *The Apprentice: American Carnage* is its threat of escalating tariffs on European countries that weirdly don't think the US should be threatening to invade a Nato ally.

The understandable result is that many are talking about Europe's arsenal of "anti-coercive" measures — perhaps even including the trillions of dollars worth of US financial assets that European investors own. As George Saravelos, Deutsche Bank's chief FX strategist, says in a note over the weekend:

Europe owns Greenland, it also owns a lot of Treasuries. We spent most of last year arguing that for all its military and economic strength, the US has one key weakness: it relies on others to pay its bills via large external deficits. Europe, on the other hand, is America's largest lender: European countries own \$8 trillion of US bonds and equities, almost twice as much as the rest of the world combined.

In an environment where the geoeconomic stability of the western alliance is being disrupted existentially, it is not clear why Europeans would be as willing to play this part. Danish pension funds were one of the first to repatriate money and reduce their dollar exposure this time last year. With USD exposure still very elevated across Europe, developments over the last few days have potential to further encourage dollar rebalancing.

... From our perspective the key thing to watch over the next few days will be whether the EU decides to activate its anti-coercion instrument by putting measures that impact capital markets on the table.

With the US net international investment position at record negative extremes, the mutual inter-dependence of European-US financial markets has never been higher. It is a weaponization of capital rather than trade flows that would by far be the most disruptive to markets.

Saravelos is far from the only one to make this argument, and the instinct is understandable. Europe needs credible leverage, and this looks like a plausible tool to use. European Nato countries own \$2.8tn of US Treasuries alone, and with Canada it rises to \$3.3tn. That's more even than China's official holdings, whose trove of Treasuries has long been considered a potent potential geopolitical weapon.

Who owns US Treasuries, and how much?



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Source: [TIC report](#), [US Treasury](#) • Data is end-November 2025. Domestic holdings are calculated as the residual of total UST debt and foreign holdings.

However, colour Alphaville a crimson shade of sceptical that this is a credible threat. If Europe wants leverage against the US, it will need to look elsewhere.

Here are the three main reasons why we think that Europe's American investments don't actually give it much leverage.

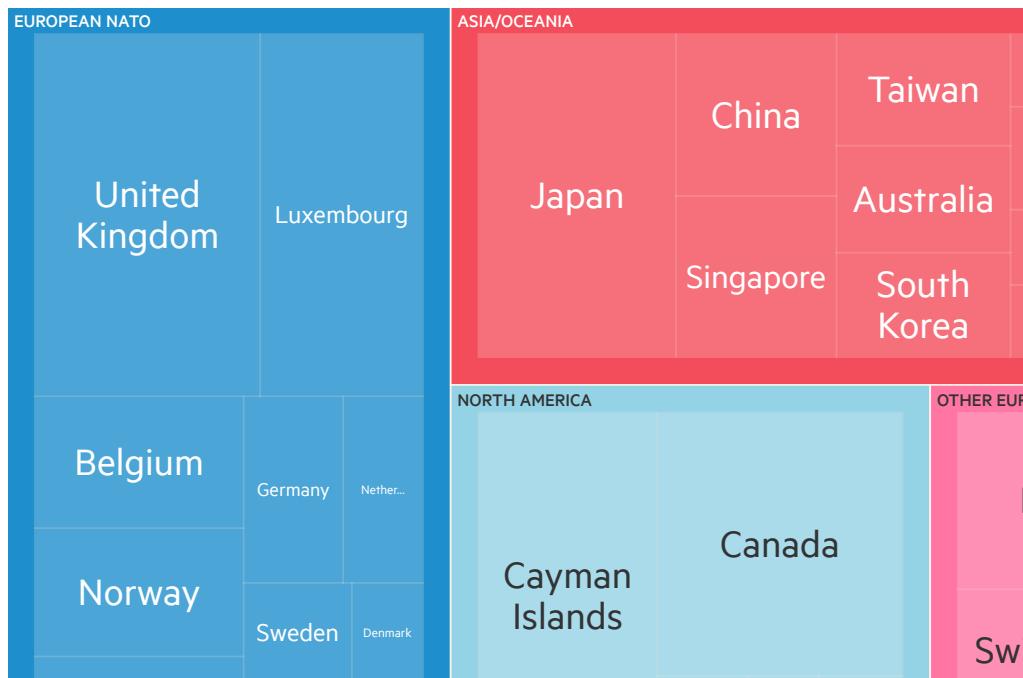
How would you compel a sale?

Using [Fed data](#), we make the overall value of all US financial assets owned by European Nato \$12.6tn, rather than Deutsche Bank's \$8tn (*update: Saravelos tells us that his \$8tn estimate is for US assets actually held by European investors, rather than by non-European investors via investment vehicles and custodians in the region*).

But this doesn't change the fact that most of these assets are not actually owned by European governments (the Norwegian sovereign wealth fund being the only notable exception).

These stocks and bonds are actually overwhelmingly held by the private sector: thousands of insurance companies, pension plans, banks and other institutional investors, and millions of ordinary people. Some of the money is held on behalf of investors elsewhere in the world. For example, much of Belgium's holdings are actually in Euroclear.

Breaking down the \$35tn of foreign holdings of US financial assets



That means that leveraging the aggregate sums is far from straightforward. In practice, it might even be impossible.

Many investors might already be tiptoeing away from the US ([as are some big US investors](#)), and some might be susceptible to . . . moral suasion by their governments. But the only way to compel them to more meaningfully ratchet back their exposure would be to pass laws in each country that mandate, say, a maximum exposure to any individual country.

As SocGen's chief FX strategist Kit Juckes writes, with our emphasis in bold below:

There is no doubt that dependence on foreign capital is a vulnerability of the US economy, but are fears of foreigners pulling back reasonable? Geopolitical turmoil may largely stem from Washington, but its impact is at least as great abroad than at home. And the dollar is already cheaper than it was a year ago, while the US growth outlook is much brighter than it was immediately after Liberation Day. **It may be that European public sector investors in US assets either stop accumulating or start selling, but the situation probably needs to escalate a fair bit further before they damage their investment performance for political purposes.**

If compulsion is even possible — and Alphaville is intensely doubtful — it would take a *loooong* time.

A reminder that for [Mifid 2](#) negotiations started in 2011, the directive only passed in 2014, and it was not implemented until 2018. Maybe a crisis of this scale could spur swifter movement, but we're still talking years at a minimum.

Who would Europe even sell to?

A thing that people often forget is that every seller requires a buyer, and it's unclear who would be willing to take the other side of any European fire sale of US assets.

Unless European sellers are happy to trade US exposures for Asian ones, Asian investors are certainly not going to be absorbing even a modest proportion of \$12.6tn in a hurry. The market cap of the entire MSCI All-Country Asian index is [around \\$13.5tn](#), and the Asian component of the FTSE World Government Bond Index comes in at around \$7.3tn. Maybe European investors will all swap their Nvidia stock for Japanese government bonds? It doesn't seem likely.

Sure, the huge and multi-faceted US investment industry would be able to absorb a lot of US securities sold at the right price. They could ditch their foreign holdings, swapping them for domestic stocks and bonds. But the country runs a net international investment position of minus \$27tn, so much of the 'right price' would need to result from everyone agreeing that US dollars just weren't worth much anymore.

In reality, the US financial markets are the biggest, deepest and most liquid in the world, and it would be hard to reallocate the money elsewhere. As Rabobank's analysts noted:

While the US's large current account deficit suggests that in theory there is the potential for the USD to drop should international savers stage a mass retreat from US assets, the sheer size of US capital markets suggests that such an exit may not be feasible given the limitations of alternative markets.

M.A.D.

Returning to China, there's a reason why Beijing has never actually followed through on the long-touted threat that it might dump US Treasuries whenever it has had a major contretemps with Washington.

It's basically the global economic equivalent of Paul Getty's adage that if you owe the bank \$100, you've got a problem; but if you owe the bank \$100mn, then *it* has the problem. Or to use Cold War parlance, threatening to dump the global reserve currency is a case of mutually assured destruction.

Firstly, China's holdings of US government and agency debt are the inevitable result of its heavily managed exchange rate. By keeping the renminbi unnaturally cheap to nurture its export industry, it has to accumulate trillions of dollars of overseas assets. But to sell these, it would need to accept a *radically* stronger exchange rate.

Secondly, a lot of these reserves have over the past decade primarily accumulated in China's private sector, presumably to obscure just how big they are. Brad Setser calculated in 2023 that these "[shadow reserves](#)" at the time probably amounted to almost \$3tn. If China ever made a credible threat to dump even some of its US holdings it would trash their value and do a lot of damage to its own financial system.

Europe faces the same conundrum. In fact, it is arguably far more vulnerable to blowback than China because of its much greater integration into the US-dominated financial system.

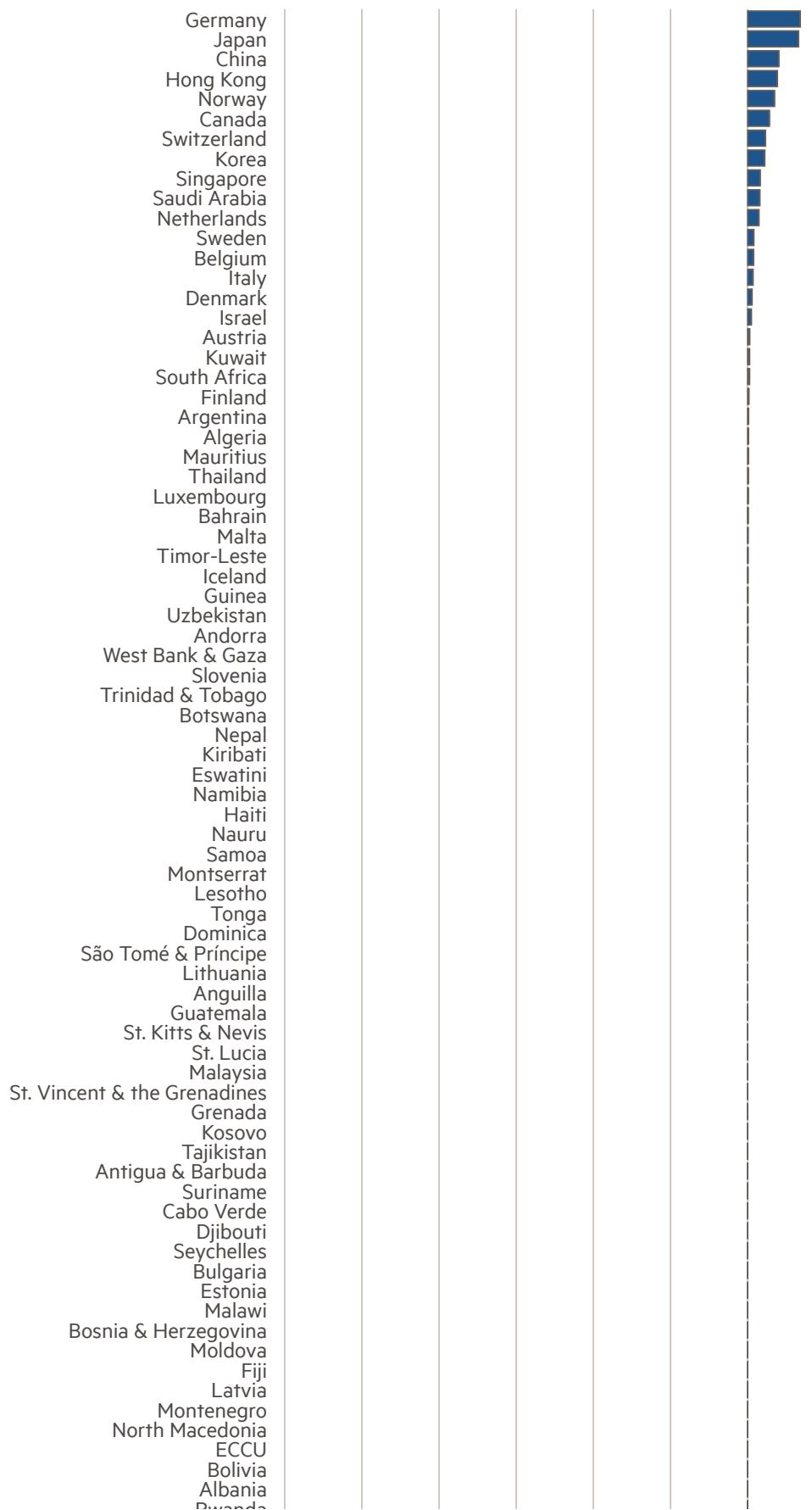
European banks and investors are stuffed with Treasuries. If they tumble in value because of a threat of a European boycott, then it would probably end up harming Europe just as much as the US, if not more so. Moreover, a large-scale repatriation of capital would send the dollar tumbling and the euro rocketing, which would alone possibly be enough to send many European countries into a recession.

Because when it comes to its international investment position, America stands alone:

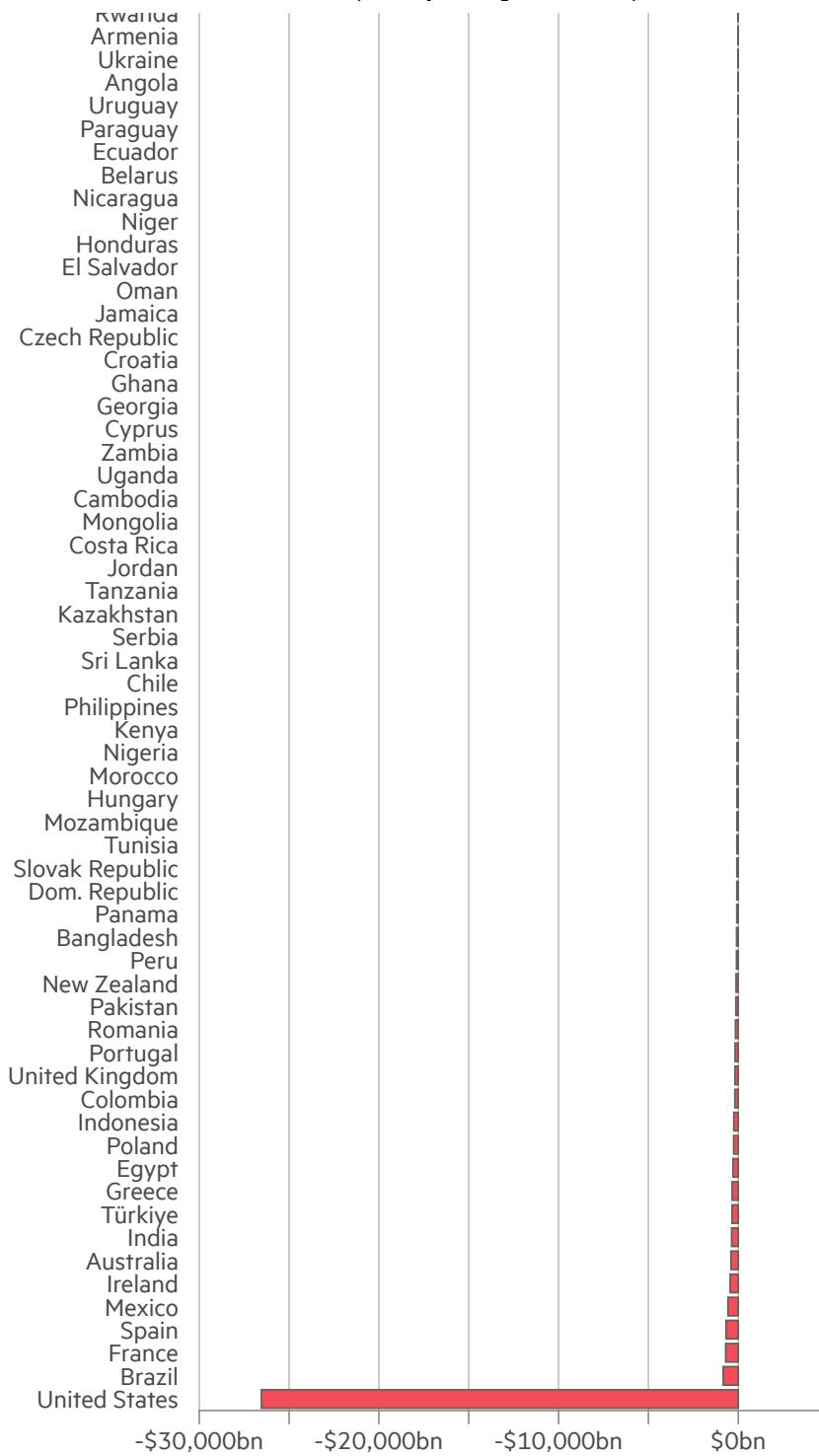
🎵 One of these international investment positions is not like the others



Net international investment position, 2024



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Source: [IMF](#)

Of course, this doesn't preclude the existence of a broader, quieter, slower-moving and less dramatic "Sell America" trade since Trump came to power.

The AI boom has obscured this phenomenon — [and Treasuries are a hard habit to kick](#) — but it probably remains in place. The Greenland saga will probably accentuate it further.

Even a "let's slow down our fresh purchases of US financial assets" could be impactful. Saravelos' main argument is that it wouldn't necessarily take "official" European action to exert leverage on the US; the combination of unofficial investor wariness and America's constant need for new money to finance its twin deficits could be enough to compel a shift. Moreover, Europe has a lot of other powerful economic tools at its disposal, [as Gideon Rachman pointed out in his column over the weekend](#).

However, the idea that "Europe" has "leverage" over the US because of its holdings of US Treasuries and other American financial assets is implausible.



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