

Fixed-Income Faceoff

Bank CDs vs. U.S. Treasuries

ONE DAY
IN JULY

What is a Certificate of Deposit?

A Certificate of Deposit (CD) is a product issued by banks and other financial institutions. Like most Treasuries, CDs pay a fixed rate of interest over a pre-specified period. Although CD maturities vary, most are short-term in nature, rarely extending beyond 5 years.

When you buy a CD, you are providing capital to a financial institution in exchange for interest. That capital is then used by the financial institution to create loans and earn interest themselves. While Treasuries are backed by the full faith and credit of the U.S. government with no cap, CDs are generally insured by the Federal Deposit Insurance Corporation (FDIC) for up to a limit of \$250,000.¹

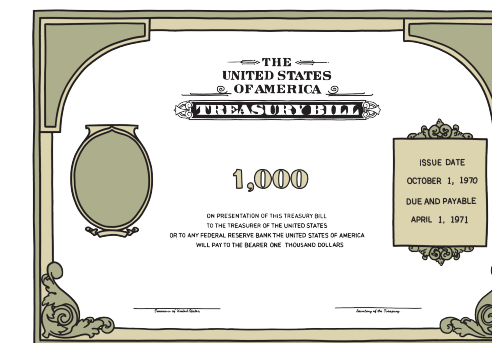


¹fdic.gov, "Deposit Insurance FAQs," 1.06.2026

What is a Treasury?

Treasury bills, notes, and bonds are direct debt obligations of the U.S. government. When you buy a Treasury, you're lending money to the federal government in exchange for interest. Historically, these securities have been considered among the safest investments in the world because the federal government can issue currency and raise taxes to pay its debt.

Treasury maturities range from a few days up to 30 years. People looking for safe, short-term yields typically purchase Treasury bills (0-12 months to maturity), while long-term investors may purchase Treasury notes (1-10 years to maturity) or Treasury bonds (10+ years to maturity).² Yields on Treasury bills are largely determined by the actions of the Federal Reserve, while the yields on notes and bonds are determined by supply and demand.



Yields & Taxes

Treasury and CD yields tend to move closely together. Banks are forced to offer CD rates that are competitive with Treasuries to attract investors. However, after-tax returns can differ significantly. While interest earned on CDs is fully taxable, Treasury interest is exempt from state and local taxes. For investors in higher-tax states, Treasuries can be meaningfully more attractive. For example, if your marginal state tax rate is 7.5%, and you buy a CD that pays 4% in interest, your after-tax yield falls to 3.7%.

Liquidity and Flexibility

Treasuries are among the most liquid investments in the world. The high trading volume allows investors to buy and sell Treasuries with minimal transaction costs. Investors also can sell Treasuries at any point prior to them reaching maturity without penalty.

CD liquidity is more variable and depends largely on the type of CD purchased. Brokered CDs, purchased through investment accounts, can usually be sold on the secondary market, though trading volume varies and fees may apply. Bank CDs are typically illiquid. Withdrawing funds early from a bank CD often results in substantial interest penalties or other fees.

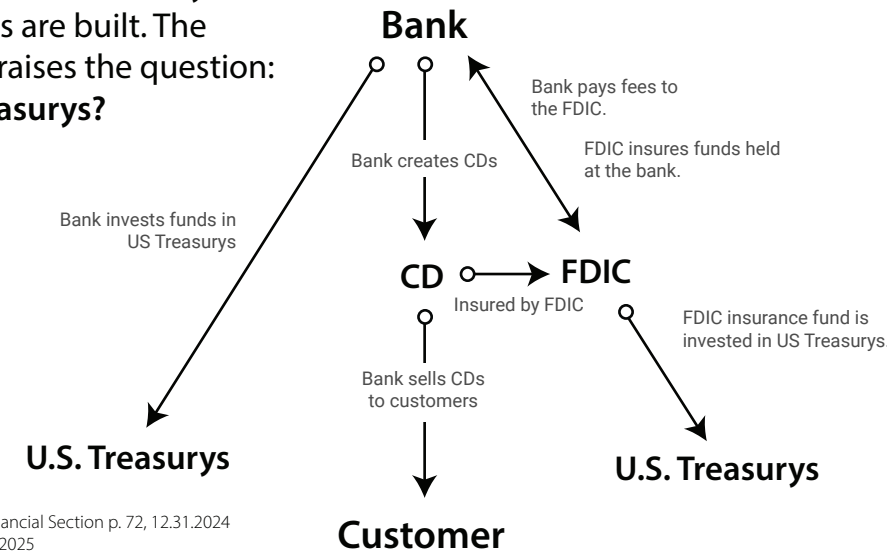
2. Longer term Treasuries carry a higher interest rate risk.

Interconnected

CDs are linked to Treasuries in a variety of ways. The most important connection comes from the Deposit Insurance Fund (DIF) via the Federal Deposit Insurance Corporation (FDIC). In the event of a bank failure, the FDIC uses funds from the DIF to make depositors whole. Interestingly, the DIF is invested primarily in U.S. Treasuries³ and the FDIC funds the DIF with fees from the banks it insures, and interest produced by its Treasuries holdings.

Banks also hold a large amount of U.S. Treasuries directly on their balance sheets. At the end of 2024, Bank of America held over \$350 billion dollars' worth of U.S. Treasuries and government agency securities, up from roughly \$300 billion the year before.⁴

These linkages point to the Treasury as the bedrock on which CDs are built. The convoluted web also raises the question: **Why not just buy Treasuries?**



3. 2024 FDIC Annual Report Section 4, Financial Section p. 72, 12.31.2024

4. Bank of America, Form 10K p. 111, 2.25.2025

"As a steward of the U.S. economy and financial systems, the Treasury has helped lay the groundwork for the American economy to become a model of strength, flexibility, dynamism, resiliency."

~ **Henry Paulson**, former U.S. Secretary of the Treasury

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