INVESTMENT INSIGHTS

Market Perspective

May 2023

2023 Federal Debt Ceiling

The current crisis looming on the horizon is the Federal debt ceiling of $31.381 trillion; most recently increased by Congress in 2021. Given the U.S. Treasury borrows $7 billion every business day, the debt limit has been reached and it has become necessary to raise it again to continue the normal functions of redeeming maturing bonds, paying coupon interest and issuing new debt. The arcane, legislative requirement began with the passage of the Second Liberty Bond Act in 1917 to issue debt more efficiently to fund World War I. Prior to this, Congress was required to vote on every individual bond issuance. Astute readers may already be aware that routine legislative action has either temporarily suspended, temporarily raised or permanently raised the statutory level 78 times in the past 63 years, with the 79th vote expected in the near future. The last debt ceiling impasse occurred in 2011, with a resolution coming essentially hours prior to a potential default on Treasury obligations.

Political theater around legislation that has been passed 78 times since 1960

Contrast to Government Shutdown

The Federal government has been shutdown 21 times since 1976 due to the inability of Congress to pass appropriation bills required for government operation. There were four shutdowns during the Carter administration; the longest shutdown thus far has been 22 days in 2018- 2019, followed by 21 days in 1995-1996, while the shortest were measured in hours or over the weekend. While requisite appropriation bills are currently in effect, the restrictions that would fall on the Treasury Department without debt legislation would halt numerous functions.

Bank of New Hampshire
WEALTH MANAGEMENT

U.S. Treasury Default

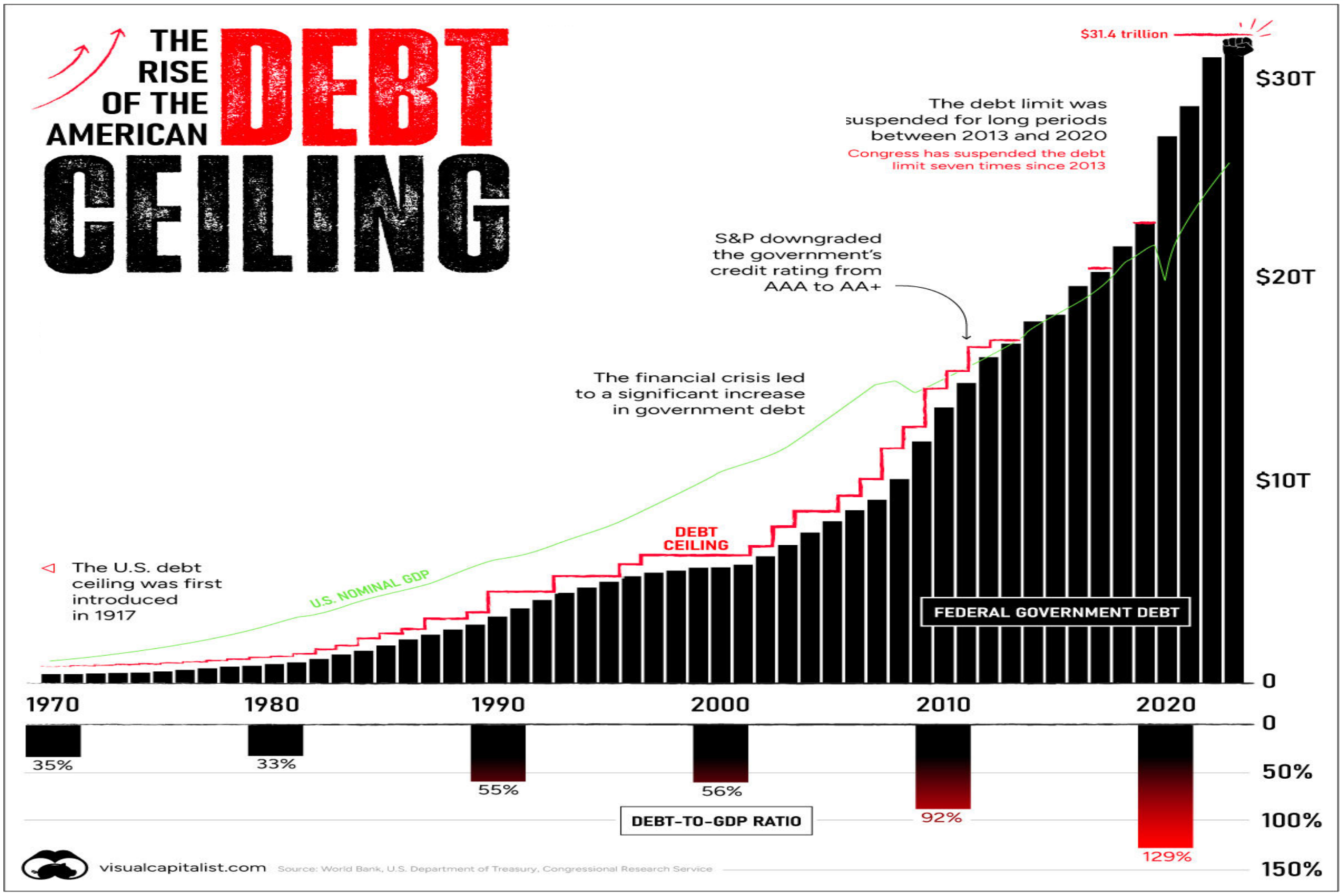
There are numerous examples of the media and politicians making erroneous statements, as in this case. The U.S, did indeed, default on its debt obligations in 1862 during wartime. That said, there is no question the impact of even a short-lived inability to pay interest or redeem matured bonds on the due date would be detrimental to the reputation of U.S. government-issued securities and the position of the dollar as the world's reserve currency. The U.S. has become the safe-haven standard since World War II in part because other major countries have defaulted throughout history.

Equal parts calamity and catastrophe

Resolution

The fact that the Federal debt limit has been voted more than 100 times since the end of WW II indicates this is a long-standing, political exercise in budget negotiations. This includes seven suspensions of the debt limit from 2013-2020. Today's challenge is to normalize post-pandemic, peacetime spending that will generate a deficit of almost $2 trillion in Fiscal Year 2023, following deficits of approx. $1.4T in both 2021 and 2022. This is in spite of record Treasury net revenue of $4.3 trillion in 2022. U.S. debt has grown from 56% of GDP in 2000 to almost 130% in 2020; to a level of over $31 trillion. Clearly the annual growth in spending will have to abate. We do expect, however, that Congress will ultimately come to an agreement in both chambers, and the White House, that will address the budget without wrecking the reputation of the republic and damaging both the financial markets and the U.S. economy. Whether this entails a temporary suspension, an increase, or some combination in the next few weeks remains to be seen.

Avoiding political, mutually assured destruction



Longer Term Focus

While short term market volatility, coupled with dire warnings, often arise during political posturing, we remain focused on longer term opportunities, risks and major shifts in global economic trends, and how these things may impact your ability to realize your goals. We continue our approach of broad diversification in suitable investments that have met our fundamental screening, research, and quality standards. We invite you to reach out on this or other matters.

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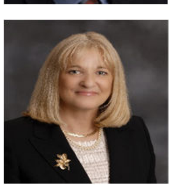

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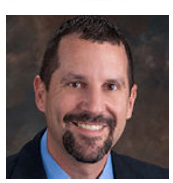

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