

## US Debt

For the fiscal year 2021, the annual budget deficit stood at \$2.8 trillion. During 2022, the deficit was reduced to \$1.4 trillion. The U.S. Federal Budget was reduced by fifty percent for fiscal year 2022, following two years of unprecedented spending to carry the country thru the Covid-19 pandemic. The reduction would have been greater still had it not been for the Biden Administration's program to offer the student loan forgiveness program. A program estimated to cost more than \$400 billion but for now is on hold pending Supreme Court review.

## U.S. Government Debt Ceiling

The United States has a cap on the amount of federal debt it can issue. The federal government reached that limit on January 19th and has been taking "extraordinary measures" ever since to ensure it can fund its obligations. But the US Treasury believes it will run out of wiggle room sometime by June 1<sup>st</sup> or soon after. At that point, either Congress must raise the debt ceiling, or the US would default on its obligations.

Markets are concerned that an agreement between Democrats and Republicans could prove elusive given the acrimonious climate in Congress. The U.S. has been here before, 22 times in fact. Each time, the debt ceiling was raised, sometimes at nearly the last possible moment, most notably in 2011.

A debt ceiling standoff that strangles government spending followed by an actual default would be a very traumatic experience. In 2011, default would have occurred in early August if a deal had not been reached. The stock market sold off in a significant fashion and 10-year Treasury rates peaked at near 3.75% in Q1 2011. Rates then plummeted and continued to decline even after a deal was struck.

## U.S. Government Debt Crisis

The US government debt default is not a typical default. Unlike corporate bond defaults, the interest and principal maturity on US treasuries would be delayed and paid once the debt ceiling is resolved. Investors not concerned about delayed payments and would thus jump in and buy US treasuries.

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